STRATEGIC MARKET PERSPECTIVE

The Impact of Business Process Reengineering on Outsourcing

U.S. Outsourcing Program

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The Impact of Business Process Reengineering on Outsourcing

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Abstract

Business Process Reengineering (BPR) is becoming pervasive in the press and the service portfolios of major Information Service companies. Is BPR the latest formula for improved productivity and competitive advantage for companies today or is it another label used to promote lectures and literature? Regardless of the ultimate result, BPR has become a trigger for self analysis for many corporations. INPUT's *The Impact Of Business Process Reengineering On Outsourcing* report examines the effect the BPR phenomena has on planned and current outsourcing activities. The report compares user experience with vendor perceptions and service strategies.

INPUT conducted 56 telephone interviews with major corporations and government institutions in the United States. In each case, these entities have conducted at least one BPR study and 27 of these organizations also have outsourced some process or function as a result of their BPR activity. The principle objective of this report is to determine the actual impact of BPR on the demand for outsouricng information system-related processes and functions. In addition, the report examines:

- The relationship between BPR and outsourcing

- The vendor interrelationship in these two markets

- The vendor positioning in these markets

- The customer demand for BPR as a prerequisite for outsourcing services

- The trends and issues driving both these markets

This report contains 116 pages, 60 exhibits and is part of INPUT's 1994 Outsourcing Information Systems Program.

**Outsourcing Information
Systems Program**

*The Impact of Business Process
Reengineering on Outsourcing*

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IV

Introduction

Business Process Reengineering (BPR) is becoming pervasive in the press and service portfolios of major Information Service companies. Is BPR the latest formula for improved productivity and competitive advantage for companies today or is it another label used to promote lectures and literature? Regardless of the ultimate result, BPR has become a trigger for self analysis for many corporations. This report examines the impact the BPR phenomena has on planned and current outsourcing activities.

A
Objectives

The principle objective of this study is to determine the actual impact of BPR on the demand for outsouricng information system-related processes and functions. In addition, the study examines:

- The relationship between BPR and outsourcing

- The vendor interrelationship in these two markets

- The vendor positioning in these markets

- The customer demand for BPR as a prerequisite for outsourcing services

- The trends and issues driving both these markets

To gain better insight into the factors affecting the BPR and outsourcing markets, this study addresses the following issues:

- The different perceptions of BPR

- The customer barriers to vendors providing BPR and outsourcing services

- The timing between BPR projects and the outsourcing decision

- The role of the BPR vendor in the outsourcing decision

- The difference between the vendor and user perceptions of the leading BPR and outsourcing vendors

B

Scope

The scope of the study includes all aspects of information systems outsourcing, including:

- Platform Operations

- Application Operations

- Network Management

- Desktop Services

- Application Management

- Business Operations

Business Process Reengineering is defined by INPUT as the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, service and speed. In addition, the study asked vendors and users for their definition of BPR to compare and contrast theoretical constructs to practical applications of BPR. *Appendix D* contains INPUT's definitions of BPR and outsourcing.

The primary focus of the study was U.S. organizations, although some BPR projects and outsourcing contracts were global in scope.

C
Methodology/Demographics

1. Methodology

- INPUT conducted 56 telephone interviews with major corporations and government institutions in the United States. In each case, these entities have conducted at least one BPR study and 27 of these organizations have also outsourced some process or function as a result of their BPR activity (see next section for demographics).

- Companies targeted for participation in the study came from the following sources:

  - INPUT's outsourcing database, containing information on more than 400 U.S. outsourcing agreements

  - Recommendations from major BPR and outsourcing vendors on companies that have implemented BPR and outsourcing projects

  - Sources that have been documented in the press as examples of organizations that have implemented both services

- Telephone and personal interviews were conducted with 12 leading BPR and outsourcing vendors. In most cases, multiple interviews were conducted to get a clear understanding of their outsourcing and BPR practices and the relationship between the two services in the vendor's total service strategy.

- Extensive study of secondary sources was conducted to capture the public persona of the BPR phenomena as well as provide sources for primary research. These sources included books and periodicals, as well as trade and the popular press.

2. Demographics

Appendix A lists the user and vendor organizations interviewed except for those organizations wishing to remain anonymous. Participating organizations represent a reasonable cross-section of industry groups as shown in Exhibit I-1.

- Companies in the Banking/Finance sectors had a median asset size of $13.0 billion

- The remaining firms had an average 1993 sales of $9.5 billion.

The interviewees were primarily senior and executive managers and 59% of the interviews were conducted with executives in the information systems organization (see Exhibit I-2).

Exhibit I-1

Respondent Industries

56 Respondents

OSBP
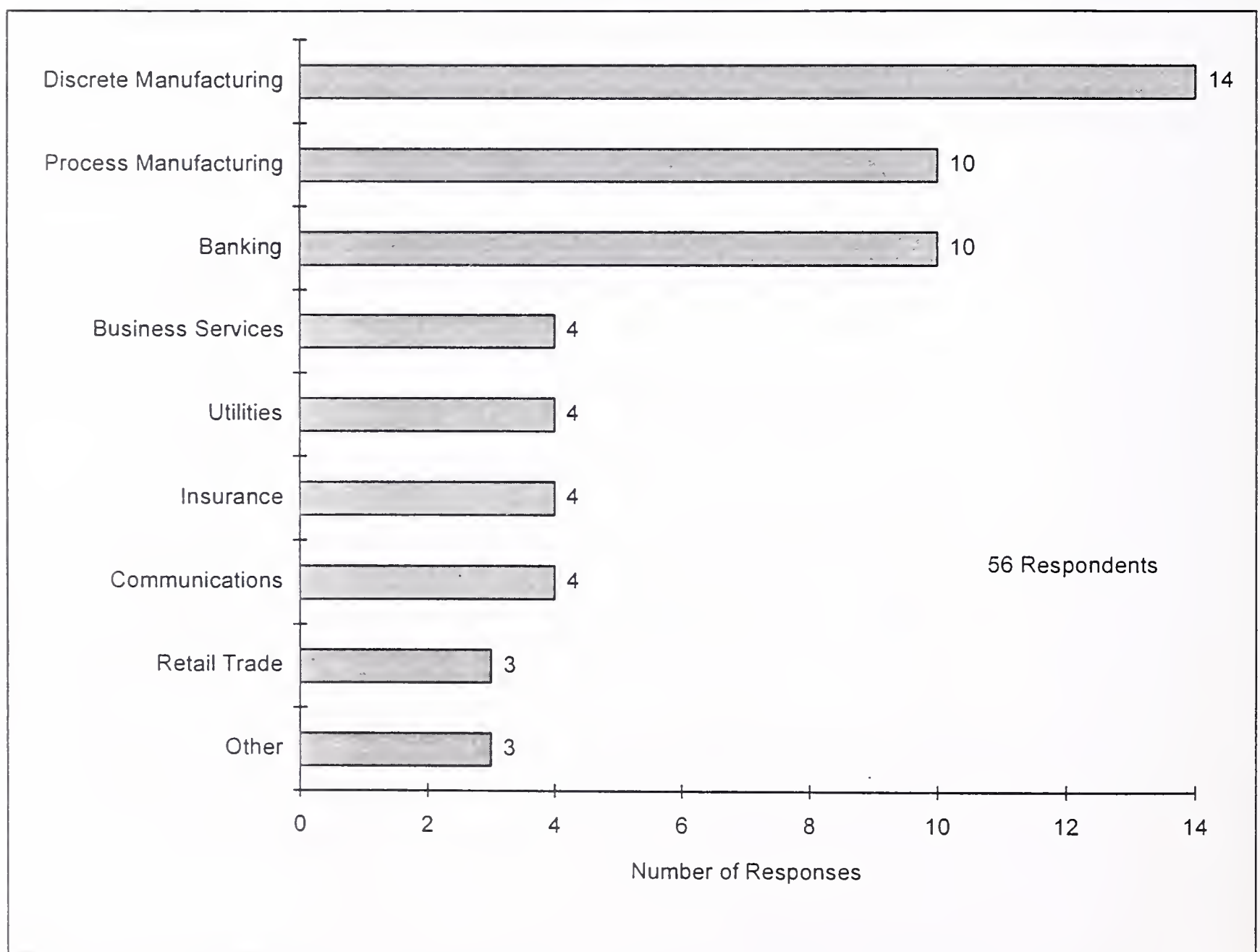
Exhibit I-2

Respondent Position
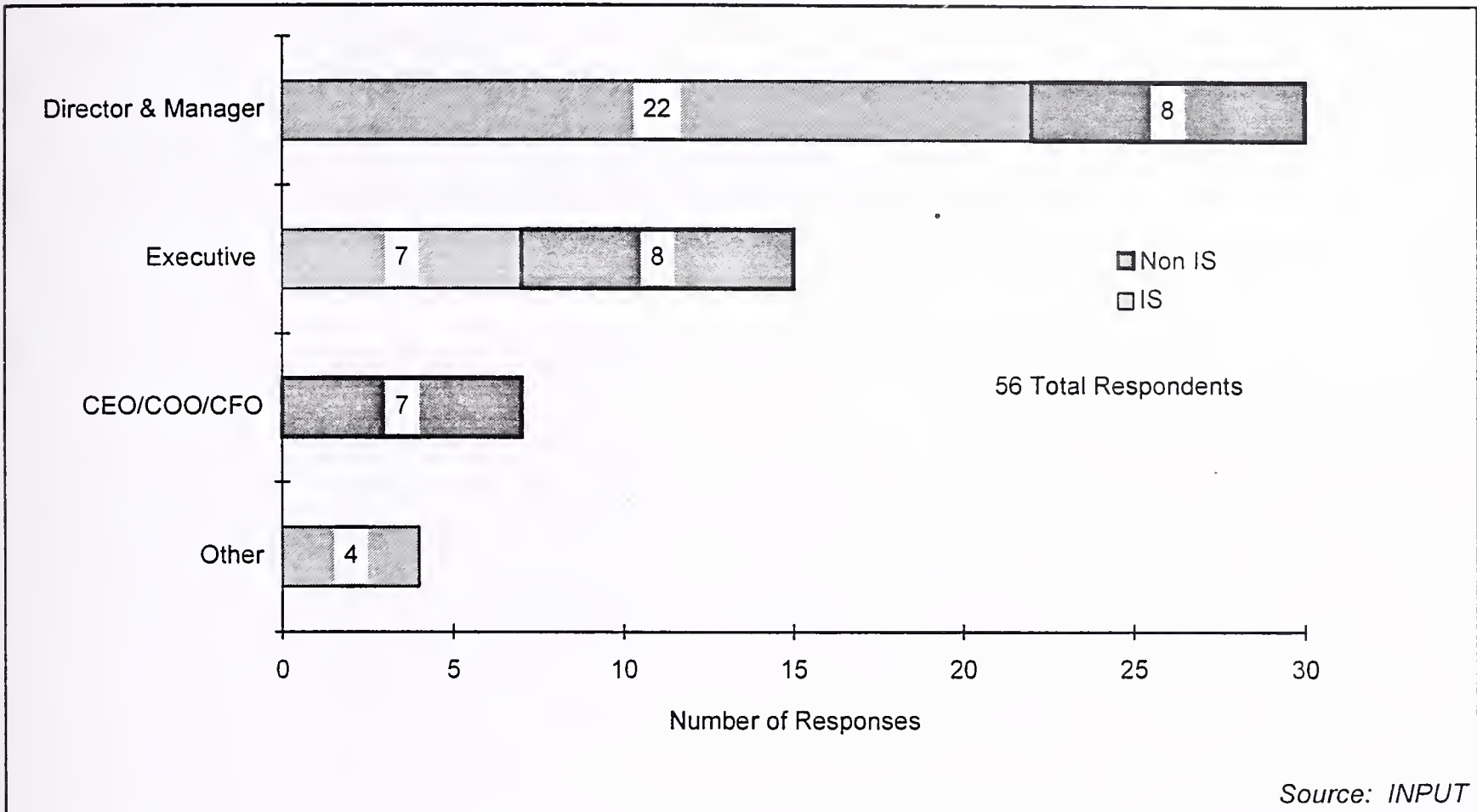
D

Organization

The remainder of the report is organized into five chapters:

- Chapter II, *Executive Overview*—provides a synopsis of the findings of this study as well as user and vendor recommendations.

- Chapter III, *Relationship Between BPR and Outsourcing*—presents INPUT's analysis of the BPR phenomena and its impact on outsourcing from the user's perspective.

- Chapter IV, *Competitive Environment*—presents INPUT's analysis of the vendors that participate in the BPR and outsourcing markets. It includes the positioning, perceptions and profiles of major vendors that participate in the BPR and outsourcing markets. Each profile includes INPUT's assessment of the vendor's role in these markets.

- Chapter V, *Case Studies*—provides an in-depth description of organizations that have launched BPR projects that ultimately led to outsourcing contracts.

- Chapter VI, *BPR & Outsourcing: Theory vs. Practice*— identifies the major differences between vendor perceptions and user reality and provides INPUT's analysis of the impact of these differences. The chapter concludes with recommendations for user and vendor organizations.

In addition the report has the following Appendixes:

- Appendix A - List of companies interviewed

- Appendix B - User Questionnaire

- Appendix C - Vendor Questionnaire

- Appendix D - Definition of Terms

E
Related Reports

INPUT is also producing a companion report on the impact of BPR on the systems integration market it is entitled: *The Relationship Between BPR and SI (1994)*. Other INPUT reports on outsourcing and BPR that may be of interest to the reader include:

- *Information Systems Outsourcing Market Analysis: 1993 - 1998 (1994)*

- *The Role of the CFO in Outsourcing Decisions (1994)*

- *Client Satisfaction with Outsourcing (1994)*

- *Desktop Services - User Perspectives (1994)*

- *Business Operations Outsourcing (1993)*

- *Business Process Reengineering in the Federal Government (1994)*

- *Systems Integration Opportunities in Reengineering (1993)*

II
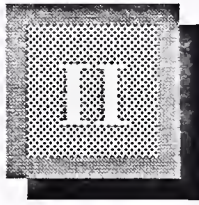
Executive Overview

Outsourcing is entering a new era. Traditional data center outsourcing, wherein the entire Information Systems operations is given to a third party to operate, is being supplanted by selected outsourcing. Segments of the IS operation and the even the business operation are now being delegated to third parties due to reasons besides cost reduction. The need to focus on core business activities is driving companies to look at ways to redefine themselves:

- To extend their traditional resources beyond internal capabilities to include vendor partnerships

- To look at process instead of function as the vehicle for business operation

- To identify core processes that define the critical success of the enterprise

- To investigate delegating all or part of these subordinate processes to third parties

Business Process Reengineering (BPR) is a tool that helps businesses redefine themselves. BPR has become a popular label for all activities that look at ways to cause "dynamic improvement" in business performance. Many consulting and IS service organizations have embraced BPR as a consulting practice and a strategy to improve customer presence.

Theoretically, the BPR phenomena should lead to increased demand for outsourcing services. Since BPR identifies areas that require "radical change", many of those changes involve modification to the information technology (IT) infrastructure.

These modifications create the need for new development simultaneous with maintaining the legacy environment. BPR also identifies subordinate processes that may be delegated either entirely or in part to third parties.

INPUT has conducted a study to investigate BPR's current impact on the outsourcing market. The study compares user experience with vendor perceptions and service strategies. This chapter contains an overview of the study, a summary of the findings, and INPUT's recommendations.

A

Introduction

INPUT conducted 56 telephone interviews with major corporations and government institutions in the United States. In each case, these entities have conducted at least one BPR study and 27 of these organizations also have outsourced some process or function as a result of their BPR activity.

- The organizations interviewed represent a cross section of major industry sectors and are listed in *Appendix A*.

- Exhibit II-I shows the distribution of the respondent level of people interviewed for this study. Executive and senior executives accounted for 40% of the sample. They provided invaluable insight into the strategic value of the BPR and outsourcing process. The information systems function was represented in 59% of the interviews. Typically the CIO or equivalent was the primary interviewee for those interviews.

Exhibit II-1

User Interview Position

56 Respondents

Source: INPUT
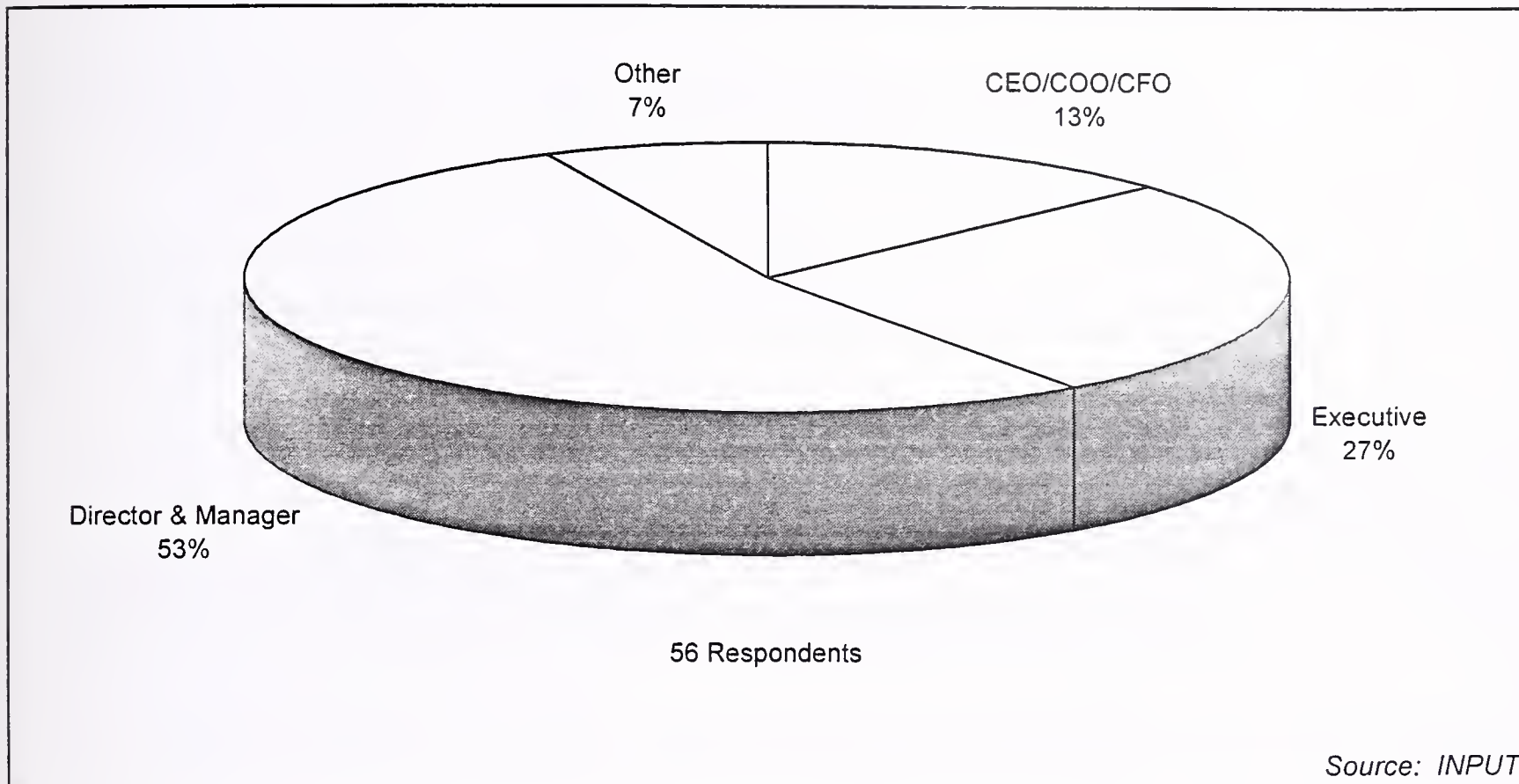
INPUT also conducted in-depth, in person and telephone interviews with 12 BPR and outsourcing vendors. Typically, there were multiple interviews with each vendor, reflecting the different perspectives of the consulting and outsourcing organizations.

The data collected from the user and vendor interviews included:

- BPR definitions, use and service offerings

- BPR/outsourcing service alliances

- Perception on the importance of single vendor service for BPR and outsourcing

- Impact of BPR on the outsourcing demand, service content and contracts

- Perceived leading vendors in BPR and outsourcing services

- Outsourcing projects launched as a result of a BPR project

Appendices B and C contain a copy of the user and vendor questionnaires, respectively.

B

BPR Triggers Outsourcing Demand

INPUT defines Business Process Reengineering as the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, service and speed. This definition is consistent with the industry *de facto* standard defined in the Hammer & Champy text: *Reengineering the Corporation...*, as well as the definition used by the vendors interviewed for this study.

1. Demand

Nearly 80% of vendors and users believe the BPR projects directly led to outsourcing contracts. BPR projects can provide the following results that encourage the outsourcing decision:

- BPR projects identify reasons to delegate functions and processes to external resources

- BPR projects may redesign processes that cross organizational functions as well as the IS applications that support those functions. This redesign may require not only new system development but the operation of the legacy systems environment during the development and conversion phases. The systems activity could trigger demand for outsourcing the legacy environment and/or the development and operation of the new systems environment.

- BPR helps the client focus on the customer and the processes that satisfy the customer's demand. Once the client agrees that the customer is their priority, the barriers to outsourcing processes and functions that do not directly support the customer are removed.

Exhibit II-2 list the ways BPR impacts the outsourcing decision.

Exhibit II-2

OSBP

BPR's Impacts the Outsourcing Decision

- Breaks the barriers to outsourcing

- Creates demand for IS services

- Focuses on the customer

The study also concluded that outsourcing has very little influence on the decision to launch a BPR project. Although there were instances where this occurred, the influence of outsourcing on the BPR decision was:

- To demonstrate the benefit of using external suppliers

- To trigger questions about the business process/function being outsourced

Two-thirds of the users believed that BPR impacted the outsourcing scope and the decision making process by:

- Changing the decision making system by establishing tangible vendor selection criteria

- Identifing non-core processes, which expanded the number of processes that were candidates for outsourcing.

- Identifing cost saving areas that were incorporated into outsourcing vendor performance measurements.

BPR also impacted the outsourcing contract process as follows:

- Simplified the outsource agreement

- Caused more in-depth decision making

- Improved understanding of the business requirements

BPR provides focus. Users believe they understand their business objectives better due to BPR. This insight allows them to translate these business requirements into more effective outsourcing contracts.

Exhibit II-3 lists the most popular outsourcing projects launched by BPR studies:

- Information system functions/processes were the obvious leader. These ranged from outsourcing the EDP Audit function to the more traditional systems support and communications outsourcing.

- Order-to-Collection process was the most frequently identified non IT-specific process. Included in this process were: order fulfillment, transportation, billing and collection.

- Procurement/Supply Chain outsourcing included various purchasing and systems functions.

Exhibit II-3

BPR Driven Outsourcing Projects

1. Information Systems

2. Order-to-Collection

3. Procurement / Supply Chain

Source: INPUT

2. Timing Between BPR and Outsourcing

BPR projects typically last from two to three years but they are constructed in three to six month phases. The reason for the segmented approach is to provide dramatic results quickly. In many cases, subsequent phases are financed by the initial BPR phases. The users in the study that had their outsourcing contracts driven by their BPR studies found that the lead time between the start of the BPR study and the decision to outsource an area occurred in approximately six months. INPUT's research has found that the outsourcing selection and contract negotiation process can take from six to eighteen months depending on the scope and complexity of the outsourcing engagement. Given this timing (see Exhibit II-4), the time from the start of a BPR project and the start of a resulting outsourcing contract can be two years or more. Since BPR as a separate practice is less than three years old (it can be argued that BPR became popular with the Hammer & Champy

book, published in 1993), it is very early in the process to see the true impact of BPR on outsourcing.

Exhibit II-4

BPR/Outsourcing Timing

BPR

| Phase I | Phase II | Phase III | Phase IV | Phase V | Phase VI | Phase VII |

2 to 3 Year Projects, Segmented in 6 Month Phases

Outsourcing

Outsourcing Decision   Vendor Selection: 6 to 18 Months

6 mo   1 yr   2 yr   3yr

Source INPUT
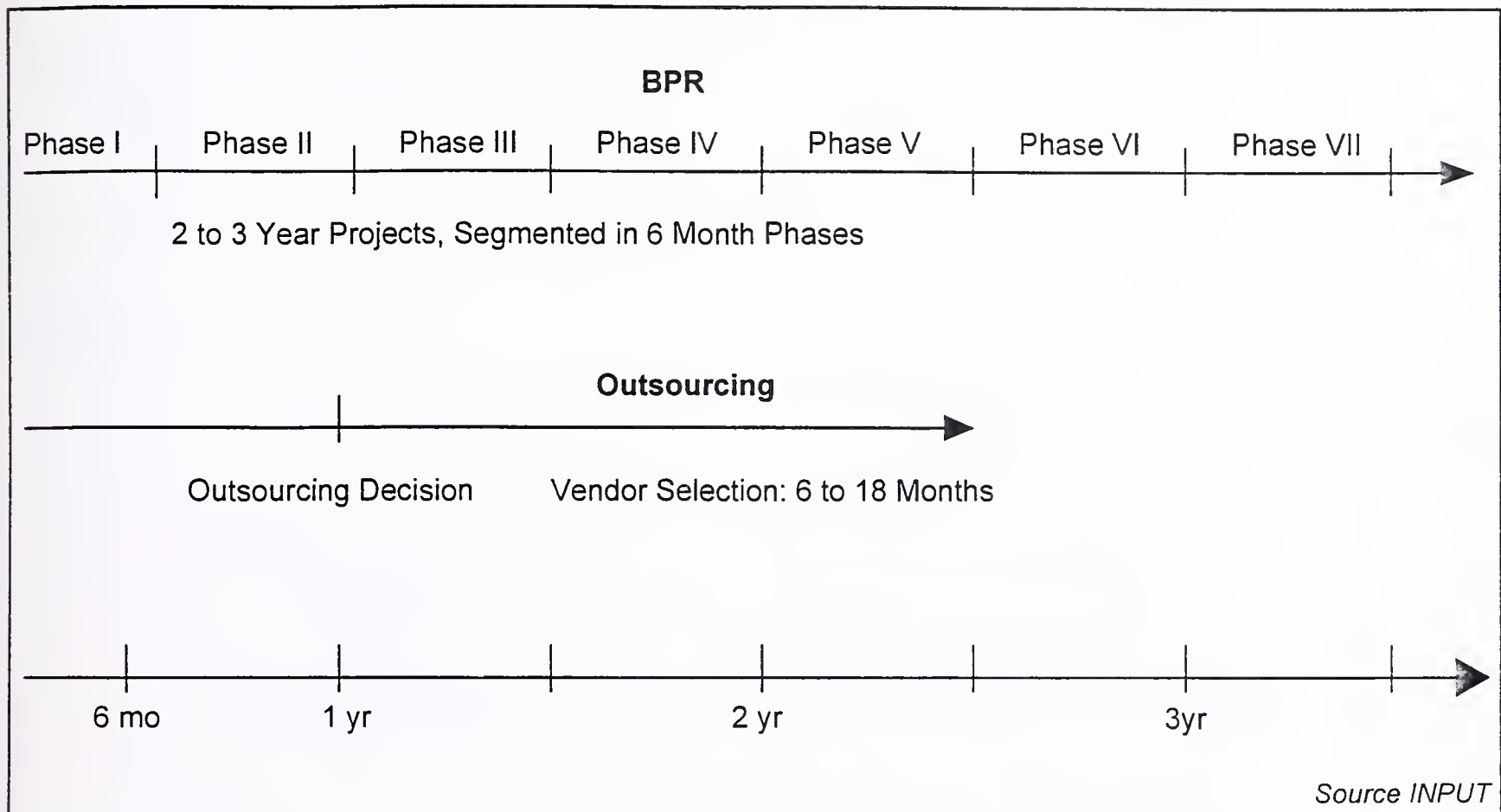
At this early stage of BPR development, however, indications are that there is a causal effect on outsourcing created by BPR. BPR can be viewed as an education process for the corporation and also a means to focus on the important areas of the company without regard to organization and functional structures. Once the education process is completed, many companies will find themselves reconstituted into a virtual entity that includes external suppliers for not only selected IS services but also for inventory management, accounts receivables, and possibly even customer services. BPR not only can reinvent the company but it can also reinvent the "sourcing" of operational processes and functions. The major impact on the sourcing model is one of the few items that vendors and users agreed during this study.

C

Competitive Positioning

The BPR phenomena has launched expanded management consulting service offerings from IT-centric firms such as DEC, IBM, HP and Unisys. The outsourcing vendor community is looking at the potential for technology business growth requiring its entry into management consulting in general and the BPR market in particular. They are also looking to protect its customer base from competitors that provide services higher up the service value chain.

1. Vendor Categories

a. BPR Vendors

Traditional management consultants specialize. Their customers are accustom to using multiple consultants for different needs. Although certain consultants, such as McKinsey, choose to snub BPR as either being too narrow in scope or investigating mainly non-core processes, BPR has become a trigger for many consulting projects. Alliances are typically alien to these consultants. However, alliances may become a competitive necessity for these firms due to the encroachment of their market segment by the full service vendors' new management consulting practices.

The Big 6 accounting firms are well represented in this market. These firms and Cap Gemini Sogeti provide implementation capability through systems integration practices. The traditional consultants (e.g. Bain, Boston Consulting, and McKinsey) still believe that the skills and methodologies required to perform strategic consulting and guide core process reengineering projects is significantly different from those to implement changes and operate the redesigned process. The user perception seems to support this view. Nevertheless, the BPR competitive environment is becoming more crowded and the specialists may be forced to think the unthinkable: establish alliances.

b. Full Service Vendors

Providing a complete service solution has developed an expanded meaning . It now includes providing customers strategic and tactical management consulting services; consulting that has very little technology content. BPR has provided a focus for these

consulting activities. CSC has had a separate consulting organization (CSC Index) to perform strategic consulting since its acquisition in the 1980s. The success and notoriety of the book *Reengineering The Corporation: A Manifesto For Business Revolution,* co-authored by James Champy, Chairman of CSC Consulting (CSC Index is part of this organization), has spurred demand for these consulting engagements. In fact CSC had its strategic consulting practice before it started its commercial outsourcing service in 1991. The other full service vendors started with technology services then hired a consulting staff. Exhibit II-5 summarizes the span of service for these vendors.

Exhibit II-5

Full Service BPR & Outsourcing Vendors
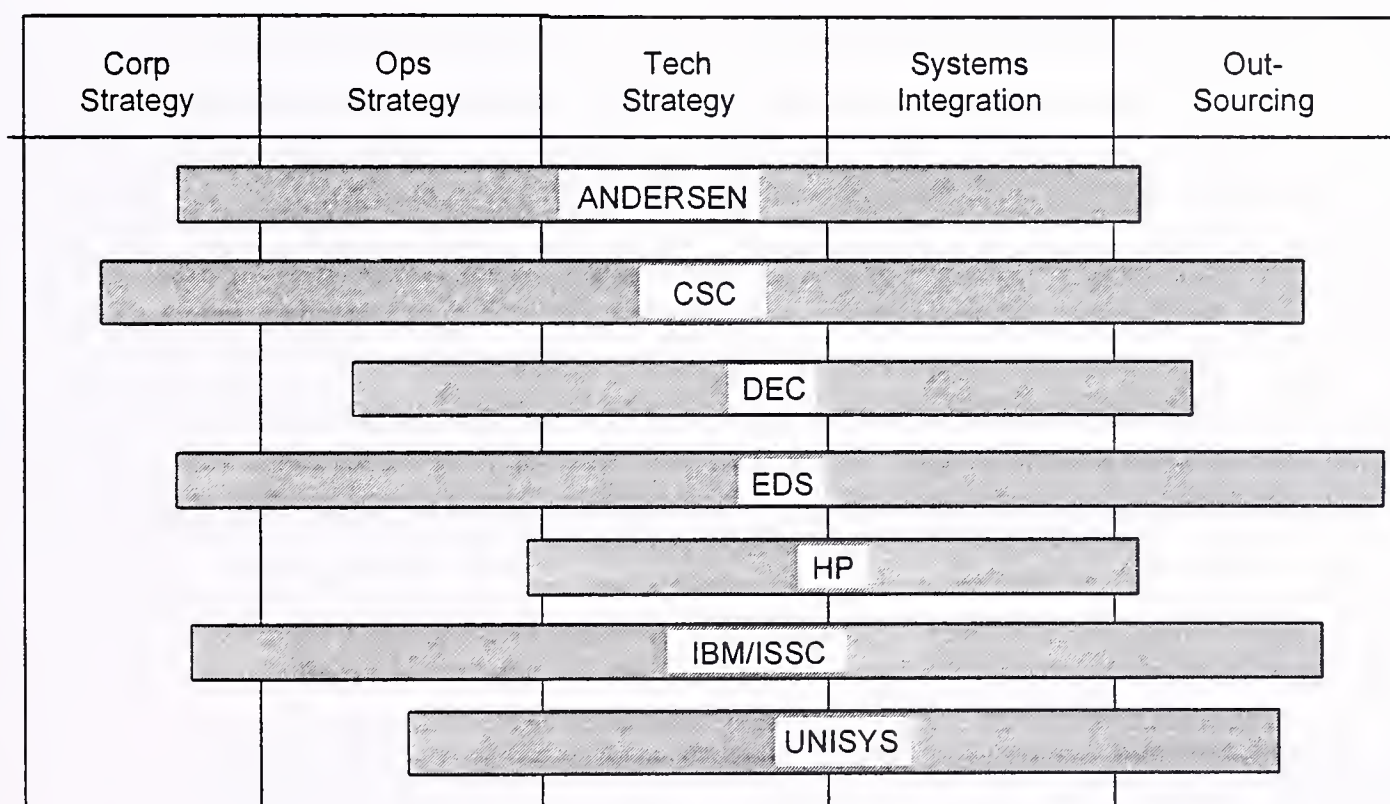
Corp Strategy	Ops Strategy	Tech Strategy	Systems Integration	Out-Sourcing
		ANDERSEN		
	CSC			
		DEC		
	EDS			
		HP		
	IBM/ISSC			
		UNISYS		

Source INPUT

c. Outsourcing Vendors

Many of the leading outsourcing vendors have chosen to remain the "best of breed" solution in implementation and operation services. Some vendors are venturing into the realm of consulting, but primarily to identify the business need for their services. Systematics, for example, has a consulting organization that focuses on its customer's business processes effected by Systematic software. These services tend to be bundled with other Systematics

software. Alliances with management consultants for this group still are rare and if they do occur, it is on a deal-by-deal basis. For the most part, these vendors view BPR as a positive factor that may convince prospects that outsourcing is a valid approach for information systems associated with the reengineered processes or for entire non-core processes. The BPR vendors may recommend vendors but most outsourcing vendors have not found these firms to be a significant factor in the outsourcing decision. BPR has made the prospects more focused on their contract requirements, removed the barriers to outsourcing and triggered more interest in information systems services in general. BPR is a driver for outsourcing services. The question remains whether providing both services is a requirement.

2. Vendor Relationships

BPR has not engendered a rush of partnerships between consulting and outsourcing vendors. The full service vendors have chosen, for the most part, to go it alone. The major exceptions are HP and DEC who have limited their BPR endeavors to non-strategic consulting. In these cases, McKinsey and Boston Consulting are used on a case-by-case basis. Even in these situations, the partnership takes the shape of a referral service in which the system vendor refers their clients to one of these consultancies for disciplines outside their core competencies. Exhibit II-6 lists the most often cited management consultants used in deal-specific partnerships by outsourcing vendors for BPR activities.

Exhibit II-6

BPR Consulting Partners

- Boston Consulting
- Ernst & Young
- McKinsey
- Nolan Norton

3. Leading BPR and Outsourcing Vendors

Vendors and users similarly perceive the suppliers of service. The vendors and users interviewed see Andersen and CSC as the leaders in BPR. Interestingly, Ernst & Young was the second most mentioned BPR vendor by the vendor panel but was merely one of the second-tier vendors according to the users in this study. The traditional management consultants received minimal mentions, with McKinsey leading the pack and only Cap Gemini (i.e., Gemini Consulting) making the list of top providers.

From the user perspective, this may be directly linked to their perception of BPR—being more tactical than strategic. The vendors interviewed included all the full service vendors cited in this study as well as a representative sample from the outsourcing and management consulting categories. These vendors also saw Andersen, CSC (i.e., CSC Index) and Ernst & Young as the leaders (and leading competitors) in the BPR arena.

In addition, the technology companies (previously known as computer manufacturers) who have invested heavily to become full service providers in the BPR and outsourcing arena (e.g. DEC, IBM and Unisys) do not make either the user or vendor list. These companies' BPR practice is relatively new (under two years old), so the momentum may not of had time to build yet. Exhibit II-7 summarizes the perceived leading vendors in BPR from the vendor and user perspectives.

Exhibit II-7

Leading BPR Vendors

User Ranking	Vendor Ranking
1. Andersen Consulting	1. Andersen Consulting
2. CSC	2. Ernst & Young
3. McKinsey	3. CSC
4. Ernst & Young	4. McKinsey
5. Cap Gemini	5. Cap Gemini

The leading outsourcing vendors contain two main differences between vendors and users:

- Vendors perceive that there is a top echelon of outsourcing vendors that include CSC, EDS, IBM/ISSC, SHL Systemhouse and Andersen Consulting.

- Users see CSC as a second-tier outsourcing provider (they have primarily participated in the mega contract-level of more than $200 million and the number of their contracts in the commercial market is still relatively low). Users do not perceive SHL Systemhouse as an outsourcing vendor.

Exhibit II-8 lists the leading outsourcing vendors as identified by the study's user and vendor panels in this study.

Exhibit II-8

Leading Outsourcing Vendors

User Ranking	Vendor Ranking
1. EDS	1. CSC
2. IBM/ISSC	2. EDS
3. Andersen Consulting	3. IBM/ISSC
4. CSC	4. SHL Systemhouse
5. DEC	5. Andersen Consulting

Source: INPUT

D

The User-Vendor Gap

User demand and vendor services need to align in order for customer satisfaction to occur. Unfortunately there are more differences than similarities in the vendor and user perceptions of the relatively new linkage between BPR and outsourcing.

1. Definition

The vendors are relatively consistent with their definition of BPR. This is true for all classes of vendors that participate in this market:

- BPR vendors

- Full service vendors

- Outsourcing vendors

In all vendor categories, the traditional definition of BPR was used: "...the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance." The full service vendors have invested heavily to acquire the skills necessary to deliver these services. Even outsourcing and niche vendors such as SHL Systemhouse and Systematics have added "management consulting" in some fashion to tap into the apparent insatiable need for consulting services that transcend business and technology.

Enter the user. Although some of the users interviewed could quote Hammer & Champy in defining BPR, more than 45% of the respondents saw BPR as continuous improvement. This has created a definition gap between the vendor and user as shown in Exhibit II-9. In addition, nearly 80% of the companies' BPR projects were either focused on process improvement or information technology reengineering.

Remembering that the respondent companies have all either completed or are conducting at least one BPR study, and each are currently outsourcing some segment of their information systems activities, we conclude that this sample contains the leaders in linking both services. These early implementors are a harbinger of the future. As such, the focus on high-end BPR activities (i.e., core process redesign) appears to be misdirected, since the bulk of the activity is occurring (and continues to occur) in the lower end of the BPR spectrum—the process improvement sector.

Exhibit II-9

The Definition Gap

Outsourcing Vendor Definition

Outsourcing User Definition

Outsourcing User BPR Projects

| Strategic Services | Core Process Design | Function Process Improvement | Info. Tech. Reengineering |

Source: INPUT
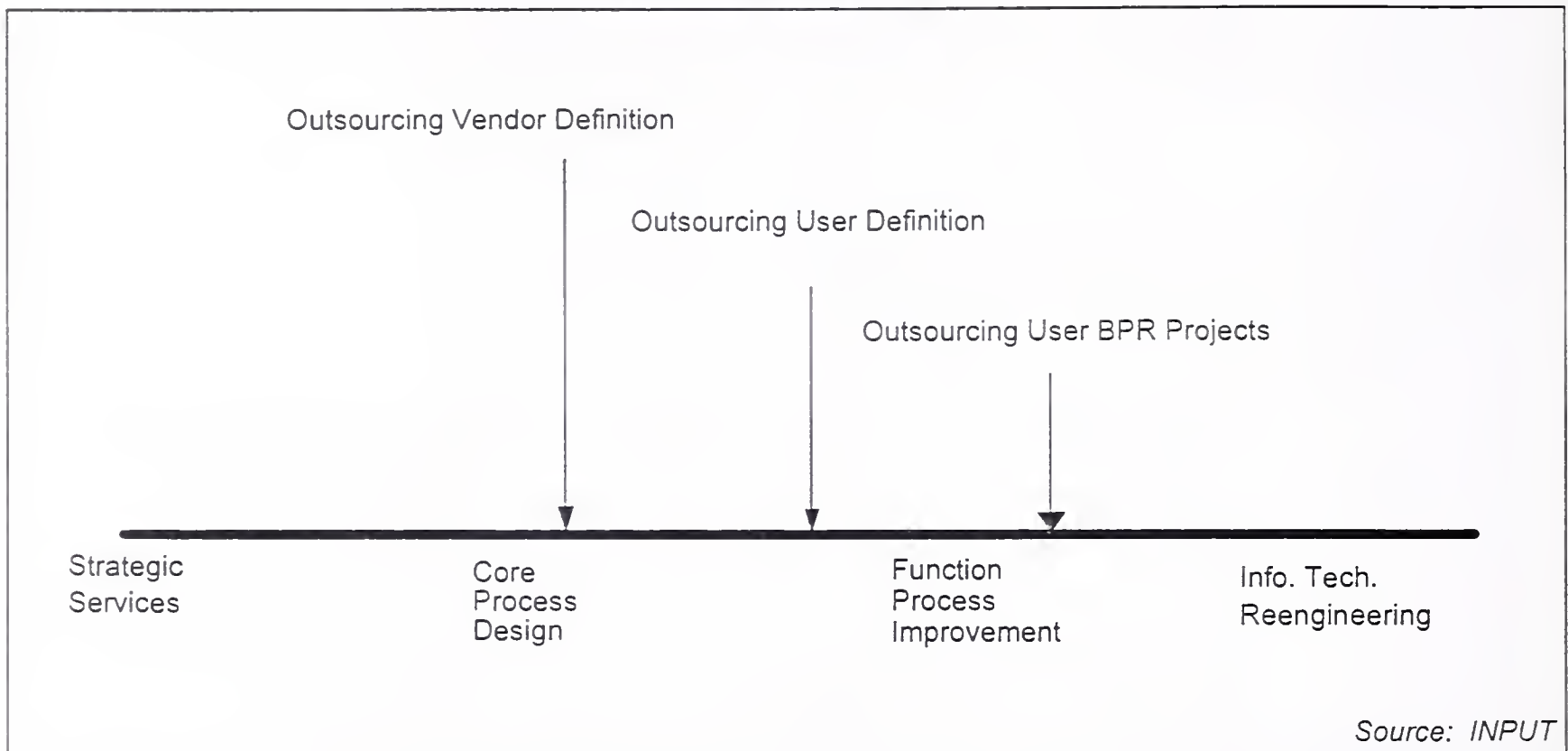
2. Dueling Perceptions

The full services vendors have invested significantly in expanding their service mix to include BPR consulting. The premise for this investment is that the customer wants one vendor to provide a complete suite of services—responsibility for the entire process from identifying core processes through the redesign, reengineering, implementation and operation phases. These vendors also believe the purchase decision for BPR and outsourcing are at the same level in the organization, so efficiencies can be garnered in the sales process for each service. The current user experience is different. As shown in Exhibit II-10, although the user community strongly believes that BPR projects positively impact the demand for outsourcing services, there is little else agreement with the vendors.

- Only one-third of the users believe there is any advantage to using the same vendor for both services. The advantage of service continuity and vendor accountability is more than offset by potential vendor bias toward recommending additional services and, more importantly, not having the advantage of the "best of breed" resource for each service category.

- The purchase decision for both services may ultimately reside with the CEO but the members of the selection team may vary significantly. BPR usually includes a broader swath of the organization: functional executives involved in the process, corporate planning functions, members of the executive committee (e.g. CEO, COO, CFO), and possibly the CIO. Outsourcing decisions are more focused. The selection committee is usually managed by the IS organization, with the CFO providing a heavy influencing role. The outsourcing vendor selection process is typically tightly controlled at the senior management level and usually undertaken without significant involvement or influence from user management other than the CEO/COO.

The relatively early phase of BPR acceptance and the timing of the subsequent outsourcing decision may demonstrate that it is still too soon to tell if there is a change in the user acceptance of the one vendor concept. But given the current environment with a group of users that are using both services, it is clear that the presumed competitive advantage of providing both services is unfounded.

Exhibit II-10

Vendor Perception vs. User Reality

BPR & O/S Same Decision Maker: 75% (% Vendors), 35% (% Users)

Advantage Using Same Vendor: 75% (% Vendors), 33% (% Users)

Percentage of Responses

12 Vendor Respondents   25 User Respondents

Source: INPUT
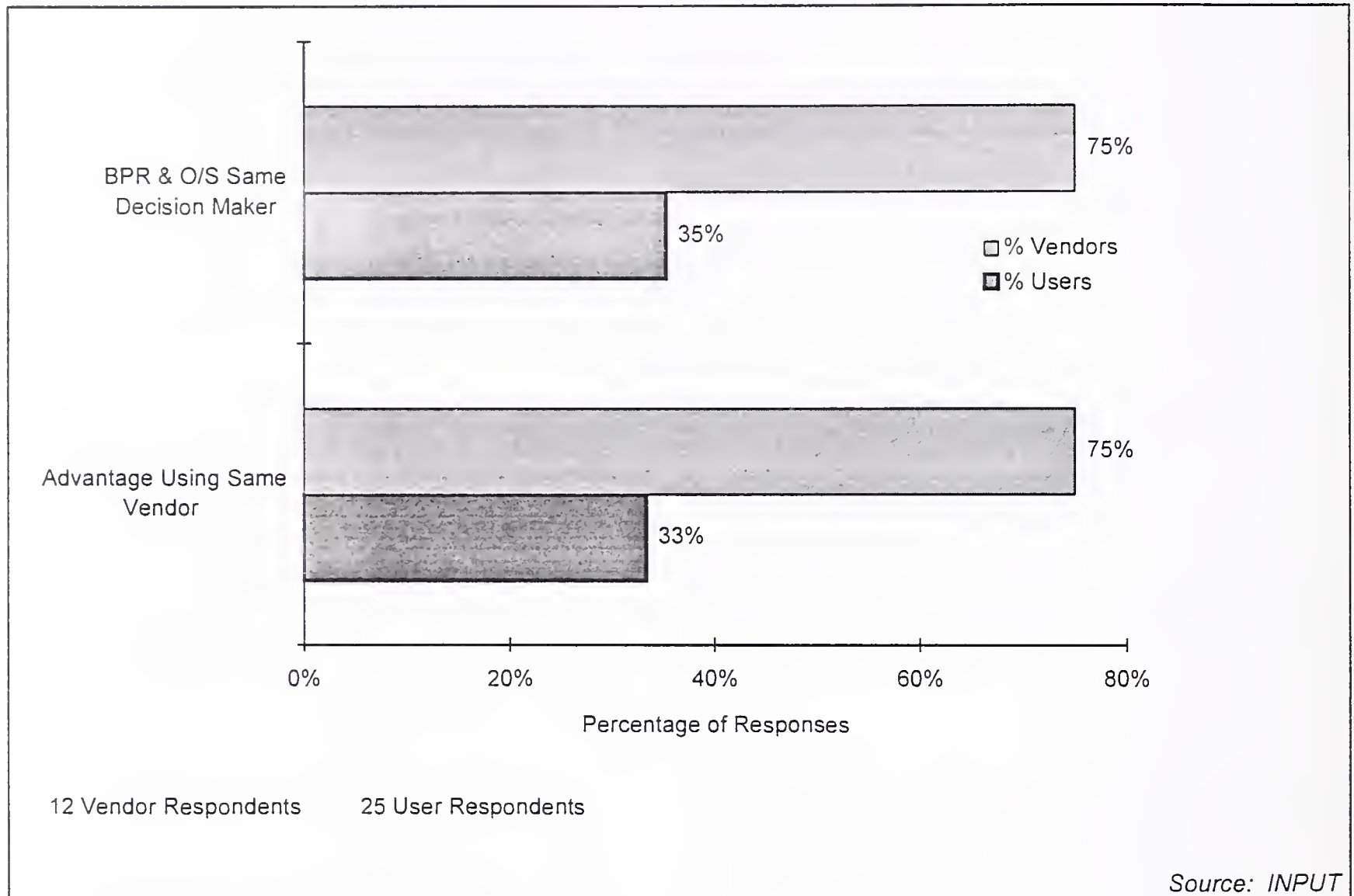
E
Recommendations

1. User Recommendations

BPR must be at least controlled internally and in many cases conducted internally. Core process identification is the theoretical first step but as this INPUT study demonstrated, most of the current activity is focused on process improvement. The use of vendors for assistance in BPR activities can be helpful, if not necessary. But the use of one vendor, even for only the BPR process may not be helpful. Consultants' value is expertise. That expertise tends to be specialized. The "best of breed" alternative, especially where disparate processes are being reengineered, is a valid alternative. The management of multiple consultants is not

necessarily an onerous task if they are segregated by function or process.

Once a core process is identified and the reengineering agenda established, the project must be established and managed. In many cases, these redesign/reengineering efforts require major structural changes to the organization and systems. These changes trigger major system changes that must be accomplished quickly. Vendors roles range from being the reengineer through the system designer, developer and implementor.

One area that cannot be overlooked is the need to manage the legacy environment during this period of dynamic change. The customer may choose keep this responsibility or delegate this to an outsourcing vendor. Similarly, the development of the new systems environment may be an internal, external, or shared exercise with a vendor. The full service vendors are positioning themselves to do any or all of these services—the customer must determine which aspects they wish them to perform. Regardless of which alternative is selected, the customer must manage the process.

The subsidiary processes identified during BPR are candidates for outsourcing. The business requirement is to focus resources on core processes. Currently most of the non-core processes are still performed internally. The migration to delegate an entire business process to a vendor is just beginning and is usually focused on the information systems segment of the process. The sharing of responsibility for the process is a means of developing trust between the vendor and user organization. In addition, few vendors are prepared to take responsibility for an entire business process.

Vendors continue to talk partnerships. BPR highlights the requirement to expand resource availability beyond the internal organization for aspects of planning, design, development and operation of all facets of business processes, including IS.

Many of these processes should be delegated to vendors. They have the capability and the efficiencies that may not exist internally. This will also allow for the reduction of operating costs, the liberation of capital, and focus personnel on higher priority activities. But is this a partnership? It better not be. A partnership implies equality but the user/vendor relationship should not be that. The customer must maintain management

control. The vendor may be a consultant, advisor, or service supplier but never a peer. The customer must manage all the relationships—from strategic consulting to outsourcing. Exhibit II-11 summarizes the user recommendations.

Exhibit II-11

User Recommendations

- Control BPR internally

- Delegate based on vendor strength - Multivendor environments are OK

- Consider transitional outsourcing during core process reengineering

- Consider outsourcing segments of non-core processes

- Do not partner - Manage the vendor relationships

2. Vendor Recommendations

Users are still focusing on continuous business improvement and not the classical definition of BPR. These users do not see the value of using a single vendor for BPR and outsourcing. However, the users in this study are the "early adapters" in the use of outsourcing services that resulted from BPR studies.

As more BPR studies are launched and processes become redesigned versus merely improved, the potential for using a common vendor for BPR and outsourcing may be realized. But for now, outsourcing vendors should align their service mix with their customer's perception. Responsiveness to the customer's need is the key. Full service may be a disadvantage if it is presented (or perceived) as the only alternative.

Customers still believe in "best of breed" vendor solutions. This is especially true in the management consulting arena. Today there is little alliance activity between outsourcing vendors and management consultants. Outsourcing vendors that do not provide management consulting view the management consultants as too far removed from technology to make a valid recommendation on outsourcing. The management consultants view the outsourcing vendors as being too far down the service value chain to be of any interest. The advent of the full service vendor (e.g. Andersen, CSC,

EDS, and IBM) eventually may make it a competitive necessity for alliance to occur. Even if the users keep the separation between service types, they agree that outsourcing activities are dependent on BPR activity. This will require the BPR vendors to be cognizant of the outsourcing capabilities in the marketplace. A closer working relationship between these two vendor categories will be required to support the customers BPR/outsourcing activities.

BPR is the launching point for Business Operations Outsourcing. BPR will identify processes that should be delegated to external resources but today, few vendors are prepared to deliver this complete service.

One solution is to create alliances between business process specialists and outsourcing vendors. The most likely occurrence in the short term will be the user managing multiple service providers. The winning vendors will be the ones that can demonstrate success in managing and operating subordinate business processes, where IS services will be a crucial component. BPR will also trigger the demand for transitional outsourcing for reengineered processes. Exhibit II-12 summarizes the recommendations for vendors.

BPR is a trigger for outsourcing demand but its full impact has yet to be felt. As BPR matures over the next two years, the true impact will begin to be seen in transitional and Business Operation outsourcing contracts (i.e., process management).

Exhibit II-12

Vendor Recommendations

- Align service mix with customer perspective
- Do not oversell full service
- Consider alliances
- Prepare for the impact of BPR

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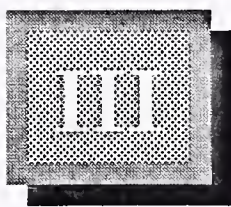
Relationship Between BPR and Outsourcing

The interrelationship between Business Process Reengineering (BPR) and outsourcing is in its infancy. The popularizing of the BPR label for consulting services can be traced to the publishing of *Reengineering the Corporation* by Michael Hammer & James Champy in 1993. The concept of BPR, whatever the label, has been used for many years but the Hammer & Champy book brought the concept to the business masses. It also clearly separated process from function as well as defined technology's role as an enabler to change. The clear BPR message is to focus on core processes and use technology to accelerate the process redesign, development, implementation and operation. What is implied is the non-core process must be subordinated in terms of resource and priority. These processes and the systems that support them must either be discarded or delegated. One source of delegation is outsourcing vendors.

Another effect of the "BPR-ing" of corporate America is the need to migrate to new technologies to support the reengineering effort. This requires additional resource during this period with a demand for transitional outsourcing a common result. But much of the BPR activity is just beginning. Is it too soon to see the impact of the BPR demand on outsourcing? Is it possible that outsourcing has triggered demand for BPR? This chapter investigates user experiences with both services and the interrelationship between them.

A

BPR Environment

"Reengineering is a mind-set, not a skill set....there is no degree or certification in reengineering". This comment was made by Kevin McGilloway, chief information officer at the Equitable Company. This is a typical reaction to the market mania attached to BPR. In Deloitte & Touche's 1994 survey of leading trends in information services, BPR was highlighted as one of the major trends affecting information systems organizations.

The survey was conducted with more than 400 North American CIOs and that group launched an averaged 3.2 BPR studies in 1993. The definition of BPR used by Deloitte was, "the radical change of critical business processes and their supporting systems to effect breakthrough gains in performance." This is similar to Hammer and Champy's definition, "the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance". One indirect result of the Deloitte study was to highlight the confusion in identifying a business process by their sample of CIOs. This confusion can be seen clearly in one metric of the study: "Business Process Reengineering Projects Launched by **Functional Area**" (emphasis provided by INPUT).

According to the leaders of the BPR discipline, the key processes are those that cross functional areas. In fact it is precisely where the processes cross organization functions that the largest potential for dramatic improvement to occur. Yet the Deloitte study measures business process by functional area. The link between the BPR definition and the practical implementation seems rare. In INPUT's study, the same situation occurred. Most of the respondents perceived BPR as continuous improvement with activity usually focused in functional areas (see below).

Another pitfall of BPR is creating multiple but discrete projects. Boston Consulting Group conducted a study and found that many large U.S. companies have up to 15 process improvement initiatives underway but they seldom add up to a coherent program. There is a failure to link BPR improvement programs such as Total Quality Management, with "bottom line" results. BPR works best from the top down, looking at reengineering the entire enterprise. This rarely happens.

Xerox is a case where a major reengineering activity resulted in a new organization structure and a new focus for the $18 billion enterprise. Xerox will be discussed in Chapter V. In an orderly BPR progression: strategy begets core process definition begets BPR begets process improvement which may result in change in technology. In INPUT's survey of users who have conducted BPR studies and have outsourced at least some of their information systems, the definition of BPR was centered on process improvement and not on core process redesign (the traditional BPR definition - see Exhibit III-1). Definition statements included:

- "Change in process for cost improvement and ease of use"

- "Redesign processes that relate to manufacturing and support"

- "Redefine the way work is performed"

- "Large scale continuos improvement"

- "End-to-end studies of all elements, determine what works, and eliminate what doesn't"

- "A radical technique to significantly improve a business process"

- "Redesigning a network after defining needs"

Exhibit III-1

BPR Positioning: The User Perspective

III-4

Outsourcing User Definition

| Strategic Services | Core Process Design | Function Process Improvement | Info. Tech. Reengineering |

Source: INPUT
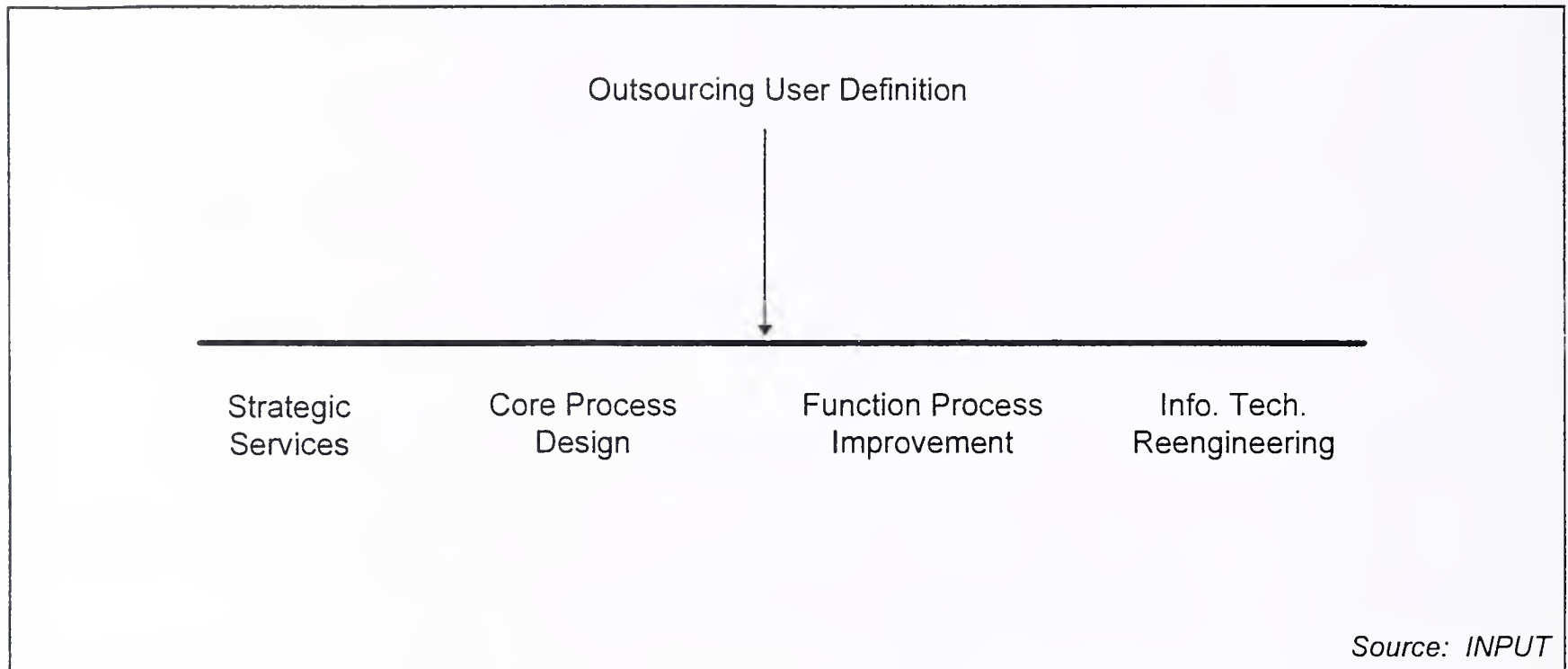
The range of BPR definitions was not affected by type of company, management level, or function. Not surprisingly, the BPR projects were consistent with the definitions (see Exhibits III-2 & III-3). Continuous improvement was the common thread that connects these projects. The companies wanted to improve not necessarily redesign.

There are many studies looking for "inefficiencies" but few that discussed "radical redesign". The most radical approach was to outsource. Even though the sample size is relatively small, since it *only* includes firms that have conducted BPR studies and have outsourced, the sample probably represents a more sophisticated group in the use of BPR than those organizations that have yet to initiate a business process exercise.

BPR Project Types

OSBP

Process Improvement — Definition 25, Use 13

Core Process Redesign — Definition 16, Use 5

IT Reengineering — Definition 7, Use 5

Strategic Service — Definition 4, Use 0

Legend:
■ Definition
□ Use

Total Respondents:
Definition 54
Uses 23

Number of Responses
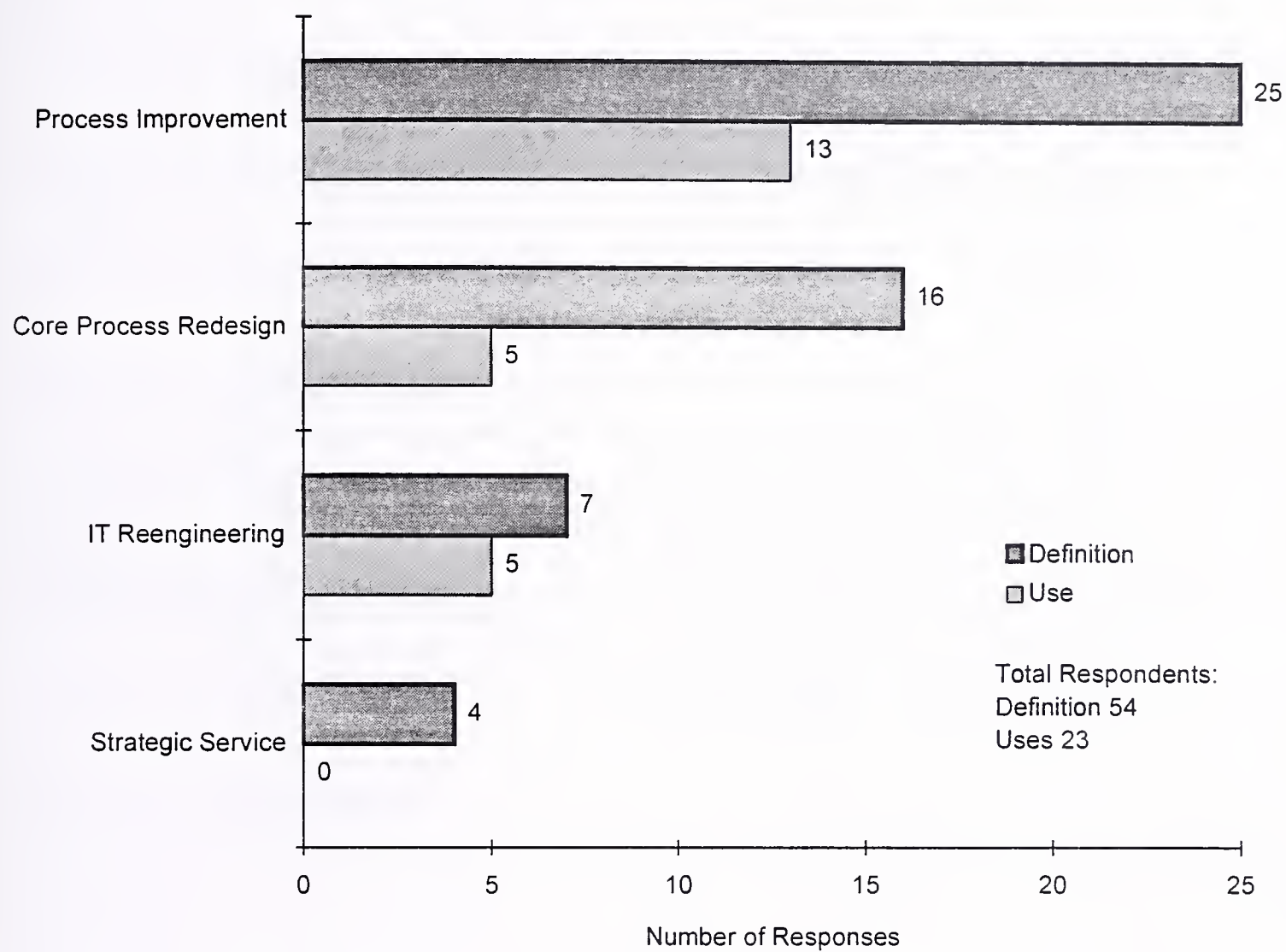
Source: INPUT

Example of BPR Uses

- Evaluate the business operation
- Evaluate information flows
- Improve efficiency
- Restructure: IT, manufacturing, marketing, etc.
- Focus on the core business
- Form process teams
- Improve the procurement, admission, purchasing processes, etc.

B

The Suppliers

1. BPR Vendors

The users identify Andersen Consulting and CSC as the leaders in BPR (see Exhibit III-4). Some of this can be linked to the sample's continuos improvement focus as well as the group's outsourcing experience. However, it is still valid to assume these two vendors are the perceived leaders in the realm of BPR.

The fact that CSC and Andersen provide outsourcing services as well as BPR does not provide a bias since the users did not select BPR vendors with the expectation of using that vendor to perform outsourcing services (see Exhibit III-7, in section C of this chapter). The other full service vendors such as EDS, DEC, IBM and Unisys had very low visibility of their BPR capability despite their major investment in management consulting persons. Chapter IV discusses these vendors in detail.

Exhibit III-4

Leading BPR Vendors - User Perspective

Andersen — 25
CSC — 21
McKinsey — 7
Deloitte & Touche — 5
Cap Gemini — 5
Price Waterhouse — 5
Ernst & Young — 4
Other Full Service — 4

114 Total Mentions

Number of User Mentions

Source : INPUT
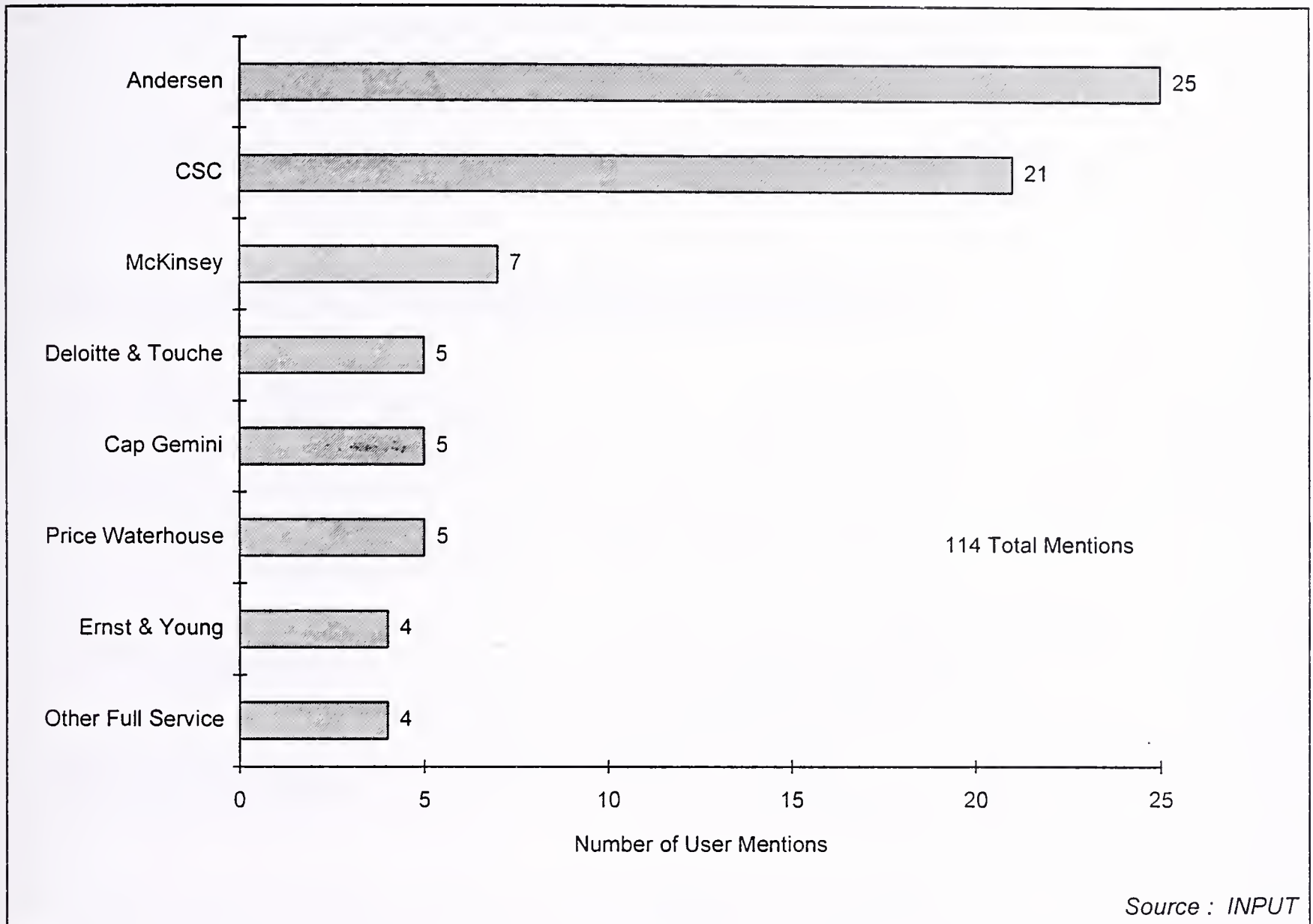
BPR is also being performed internally. In many cases, users have used external vendors for guidance, core process selection, or to reengineer a specific process. The bulk of the on-going BPR activity is performed by an internal, cross-functional team with the support of executive management. For example, Xerox has established a business-process board comprised of the CEO and the members of the corporate staff. This board sets reengineering priorities and board members act as champions for core projects. These projects are typically managed internally with BPR consultants participating in various phases, if required. One example of a vendor focusing on helping clients become self sufficient in BPR execution is DEC. DEC has found that the BPR education process takes from nine to eighteen months.

BPR vendors are perceived as specialists and users are willing to have multiple vendors participate in different facets of BPR. Specialization may either come from content (e.g. strategy, organization, operation, or technology) or by function/industry. Therefore, BPR vendors do not form alliances among themselves. The customer will construct and manage these multi-vendor environments. BPR and outsourcing vendors working together may appear to be a better fit but the results are mixed.

- Full Service vendors, typically will not form alliances—their strategy is to provide (or control) all the services themselves.

- Niche vendors see BPR and outsourcing as two separate services —BPR vendors may recommend that processes be outsourced but rarely will they recommend a specific vendor whereas, the outsourcing vendor has little involvement in the analysis, planning and design phases of BPR.

The users, however, are not adverse to seeing these alliances form. Approximately half of the respondents believe that alliances between traditional BPR vendors and outsourcing vendors will occur. The users, are unclear whether they will receive any value from these alliances. The users can be grouped into two categories in viewing this type of alliances:

- Total Solution—these customers want a total solution from planning through operation with vendors acting as a "team member" throughout the process.

- "Best of Breed"—these organizations want specialization over continuity.

2. Outsourcing Vendors

The selection criteria used for the user panel for this study required participants have completed at least one BPR study and are outsourcing at least one IS function. It can be assumed that this is an educated sample in regard to both these services.

Exhibit III-5 lists the user's view of the top outsourcing suppliers. It is interesting to note that the four responses identifying Andersen as a top outsourcing supplier also identified Andersen as a leading BPR provider.

Exhibit III-5

Leading Outsourcing Vendors - User Perspective

EDS 11

IBM/ISSC 9

Andersen 4

CSC 3

61 Total Mentions

DEC 2

Systematics 2

Number of Mentions

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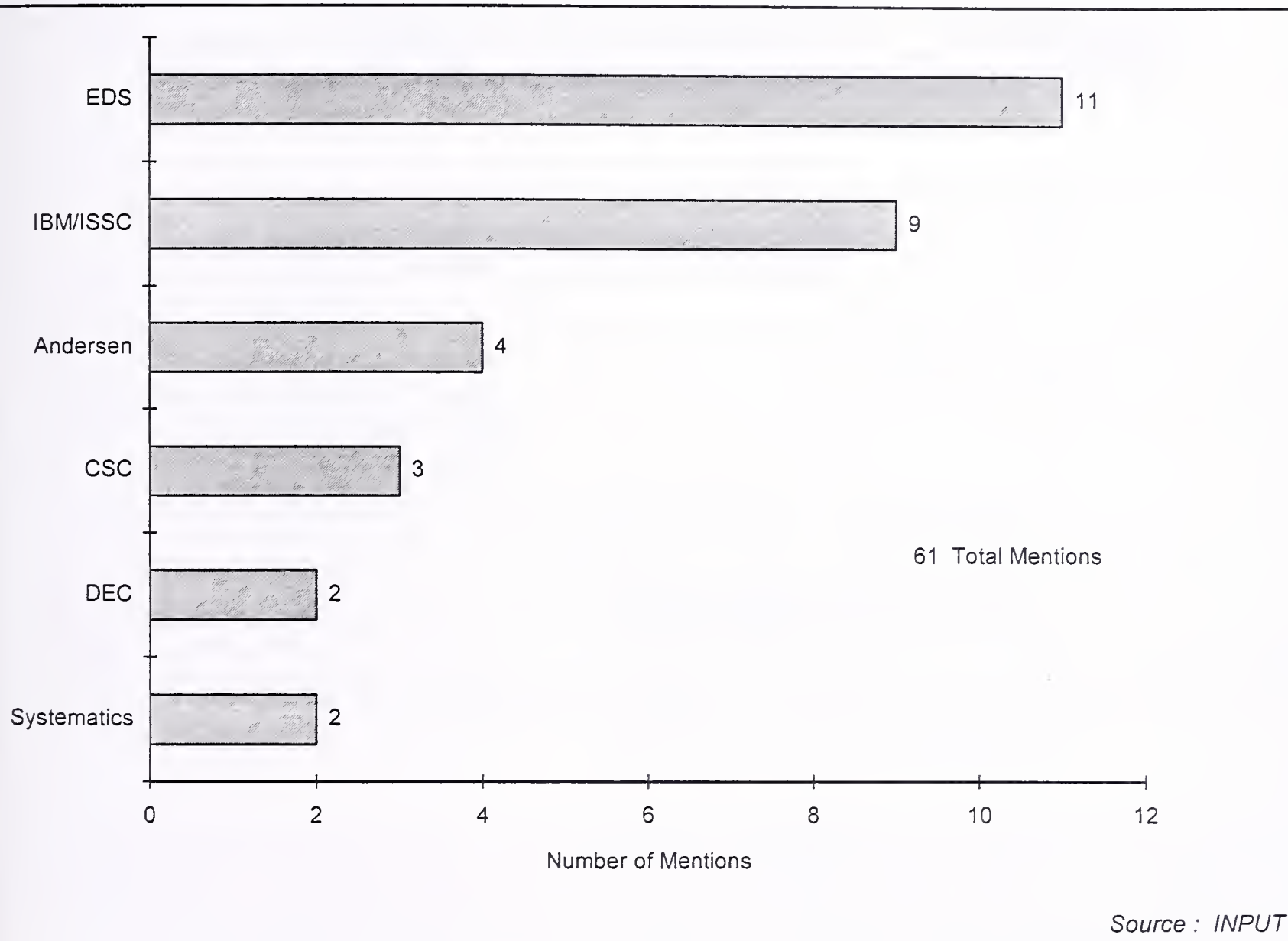
Exhibit III-6 lists the vendors that were mentioned as a leading outsourcing and BPR vendor by the same user organization. Andersen is entering the outsourcing market through its consulting and systems integration services while the other vendors are entering the BPR market through outsourcing.

Exhibit III-6

Vendors Listed as Both Leading BPR and Outsourcing Suppliers

Vendor	Number of Mentions
Andersen Consulting	4
CSC	2
DEC	1
EDS	1
Other	3

56 Respondents

Source: INPUT

Only 20% of the responses identified the same vendor as being a leader in both services. Vendors, however, believe it is a clear competitive advantage to deliver services through the entire value chain—from strategic consulting through outsourcing (see Chapter IV for the discussion of vendor strategies). This disconnect between user expectations and vendor perceptions may prove costly to the full service vendor community.

Exhibit III-7 reinforces this finding. It reflects the user seeing no linkage between the BPR and the outsourcing vendor selection. Even with a relatively limited sample size, few users obtain BPR services from a vendor with the expectation of using the same vendor for outsourcing. The same conclusion can be made for the rare situation where a customer starts with outsourcing and then determines the need for a related BPR study. Moore Business Forms is an example of this situation.

Exhibit III-7

User Expectations for Vendors
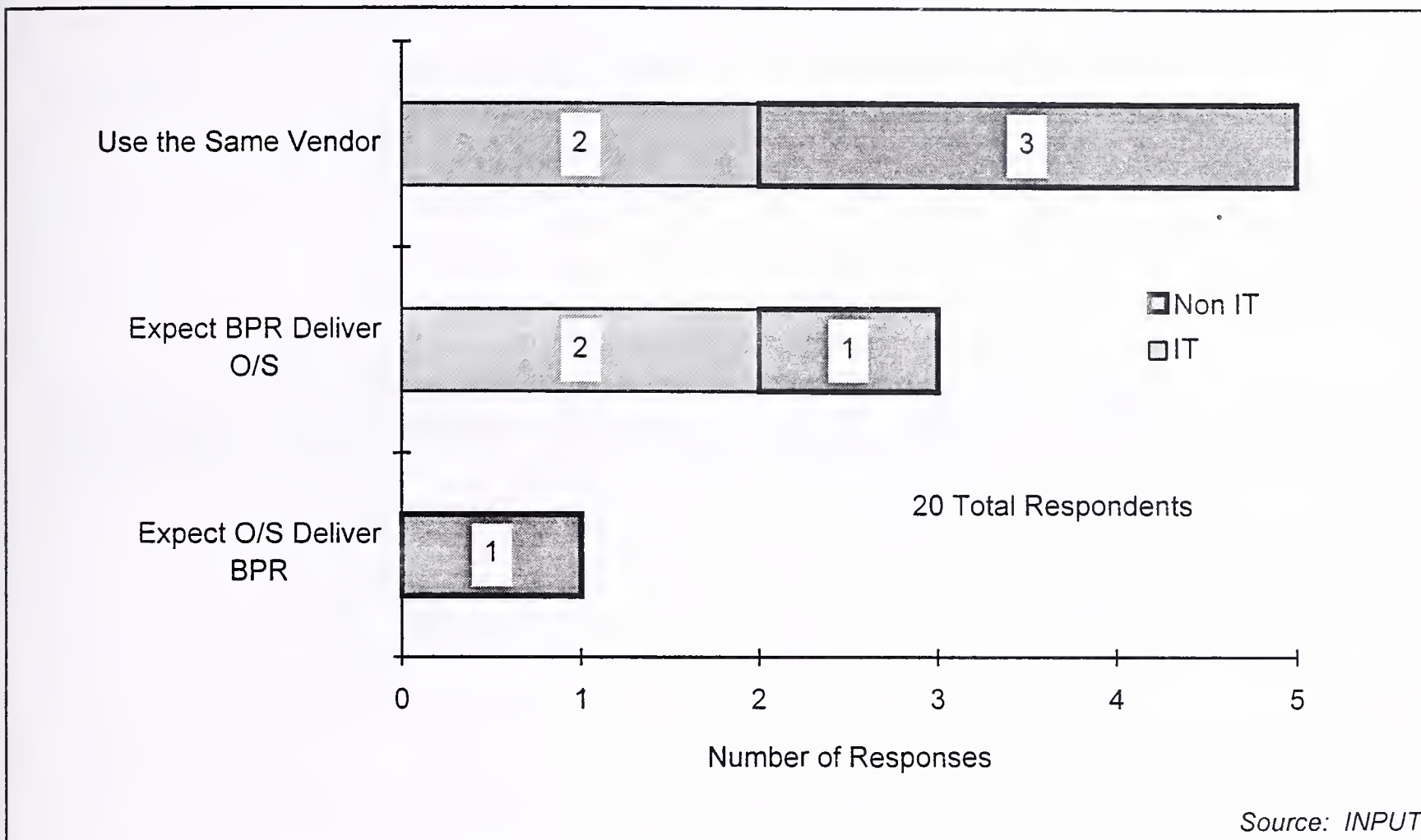
The users see a like number of advantages and disadvantages to using the same vendor for both services (see Exhibit III-8). The advantages are centered on continuity of service and the vendor understanding the company's business, organization and cultural environment. The disadvantages are potential vendor bias and the settling for inferior service rather than one provided by a vendor that specializes in either a service (e.g. BPR or outsourcing) or industry/function.

Even though the respondents cited the same number of advantages as disadvantages, users are currently choosing to use different vendors for each. Part of the reason may lie in timing. The time between the start of a BPR study and the outsourcing decision can range from a few months to more than a year (Exhibit III-9), yet many BPR studies span many years.

The decision to outsource a process or segment thereof may actually be made before the entire BPR project is completed and the

incumbent BPR vendor has proven their value. The relative short period the full service vendor's management consulting practices have been operating (approximately two to three years for DEC, EDS and IBM), have given them insufficient time to establish a market presence. In any event, the benefit of using one vendor for both services has not registered with this group of users.

Exhibit III-8

Advantages vs. Disadvantage of Using the Same Vendor

Advantage	Number of Mentions	Disadvantages	Number of Mentions
Company Knowledge	5	Lack of Objectivity	5
Continuity	5	Inferior Specifications	3
		Not "Best of Breed"	2

13 Total Responses

Source: INPUT

Exhibit III-9

Time Between BPR and Outsourcing Decision

13 Total Respondents

Source: INPUT

OSBP
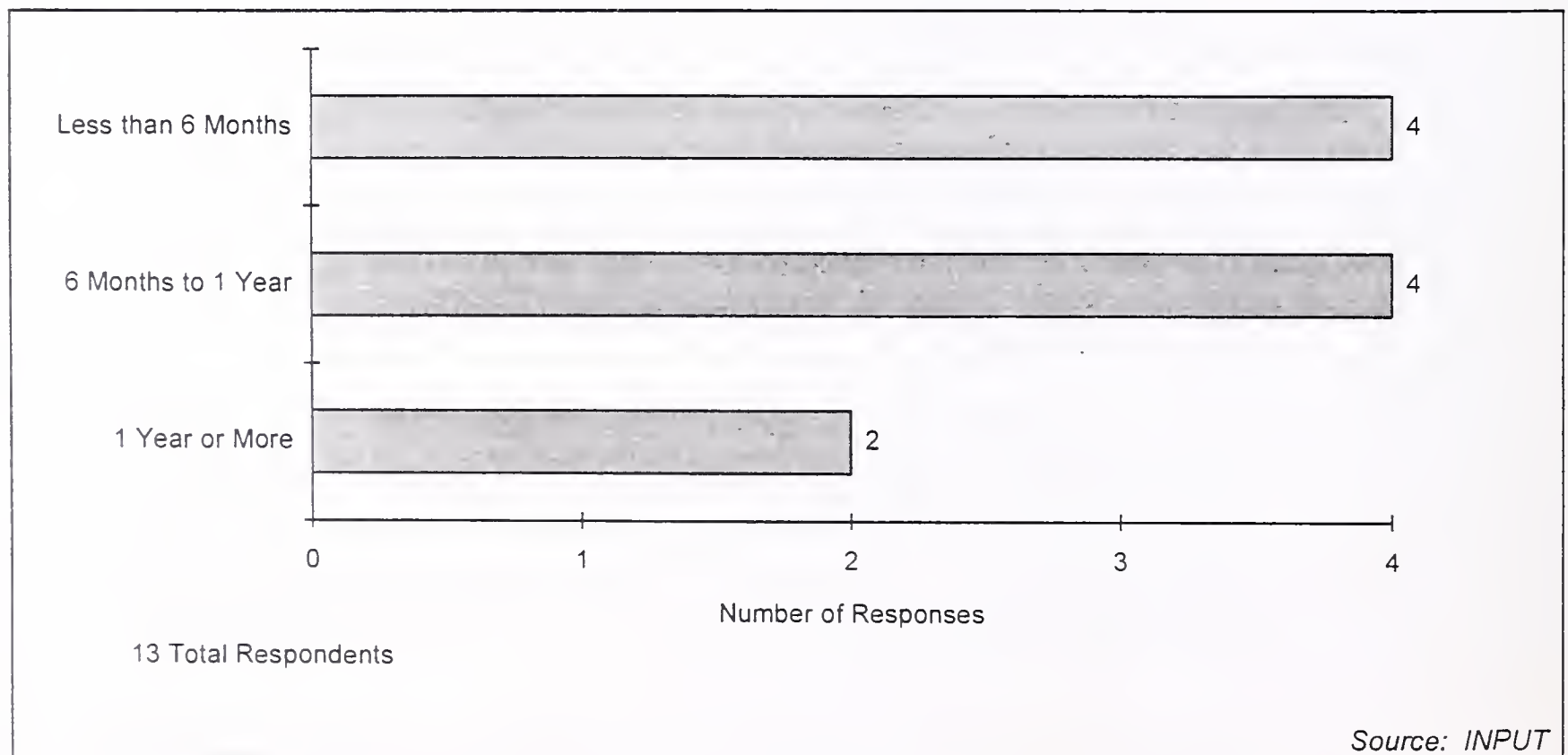
C
The Interrelationship Between BPR and Outsourcing

1. Demand

BPR is a key driver for outsourcing services. The users that conducted BPR studies found that outsourcing proved to be an acceptable and, in many cases, a preferred alternative to internal operations. BPR helped to trigger outsourcing in the following manner:

- Identified the need for skills not available within the client organization—the implementation of many reengineering projects require extensive changes to technological infrastructures. These changes may be beyond the scope of the internal IS organization or the number of personnel needed to effect the change and maintain the current environment exceeds current staffing levels.

  In addition, the need to keep these specialists as permanent employees may be questioned as a result of the study.

- Identified non-core processes—some BPR studies focus on identifying the client's core processes. These studies call into question the need or the operation of the non-core processes. One alternative is to outsource all or a part of these processes.

- Identified need to reallocated capital expenditures— reengineering, in many cases, requires infusion of capital to radically redesign the business process. The classical use of outsourcing—selling IS assets to outsourcers—is one alternative to redistribute the capital spending and receive an infusion of cash. This has been done by Xerox and McDonnell Douglas, for example. More importantly, outsourcing provides a potential for liberating future capital spending on IS and redirects it to other priority areas.

- Targets areas of inefficiencies—the continual improvement category of BPR looks at inefficiencies and redundancies. BPR vendors interviewed for this study agree that the cross-functional areas of business processes are the areas most likely to harbinger the most inefficiencies.

  The capability of either outsourcing the entire process such as publishing or a cross-functional subprocesses such as report production and distribution can provide quicker improvements than restructuring the functional organizations.

Rarely does outsourcing lead to BPR studies. In the three cases where this occurred in this study, the outsourcing contract triggered questions about the business processes being outsourced. Moore Business Forms is an example where a company established an outsourcing relationship, then decided to use the same vendor (EDS) to perform a BPR study.

The BPR study highlighted the potential strategic importance of outsourcing as well as the need for changing Moore's information systems direction. Even though few respondents saw outsourcing leading to BPR, many believed that the two services were tightly linked. Outsourcing was viewed as one possible outcome of BPR with the use of external vendors for various activities including BPR, being enabled by successful outsourcing experiences.

Exhibit III-10 shows the user's perception of the impact of BPR on outsourcing and the impact of outsourcing on BPR. The mix of IT versus non-IT interviewees responded similarly regarding the cause-and-effect relationship between BPR and outsourcing, but none of the IT respondents saw BPR coming from outsourcing experiences.

Approximately one-third of the respondents expected their BPR project to lead to an outsourcing contract. This indicates that these users were presold on the benefits of outsourcing and that the BPR study merely confirmed their belief. The result of the BPR study most likely transcended the outsourcing recommendation, but outsourcing was one tangible result of the study.

Exhibit III-10

The Interrelationship Between BPR and Outsourcing

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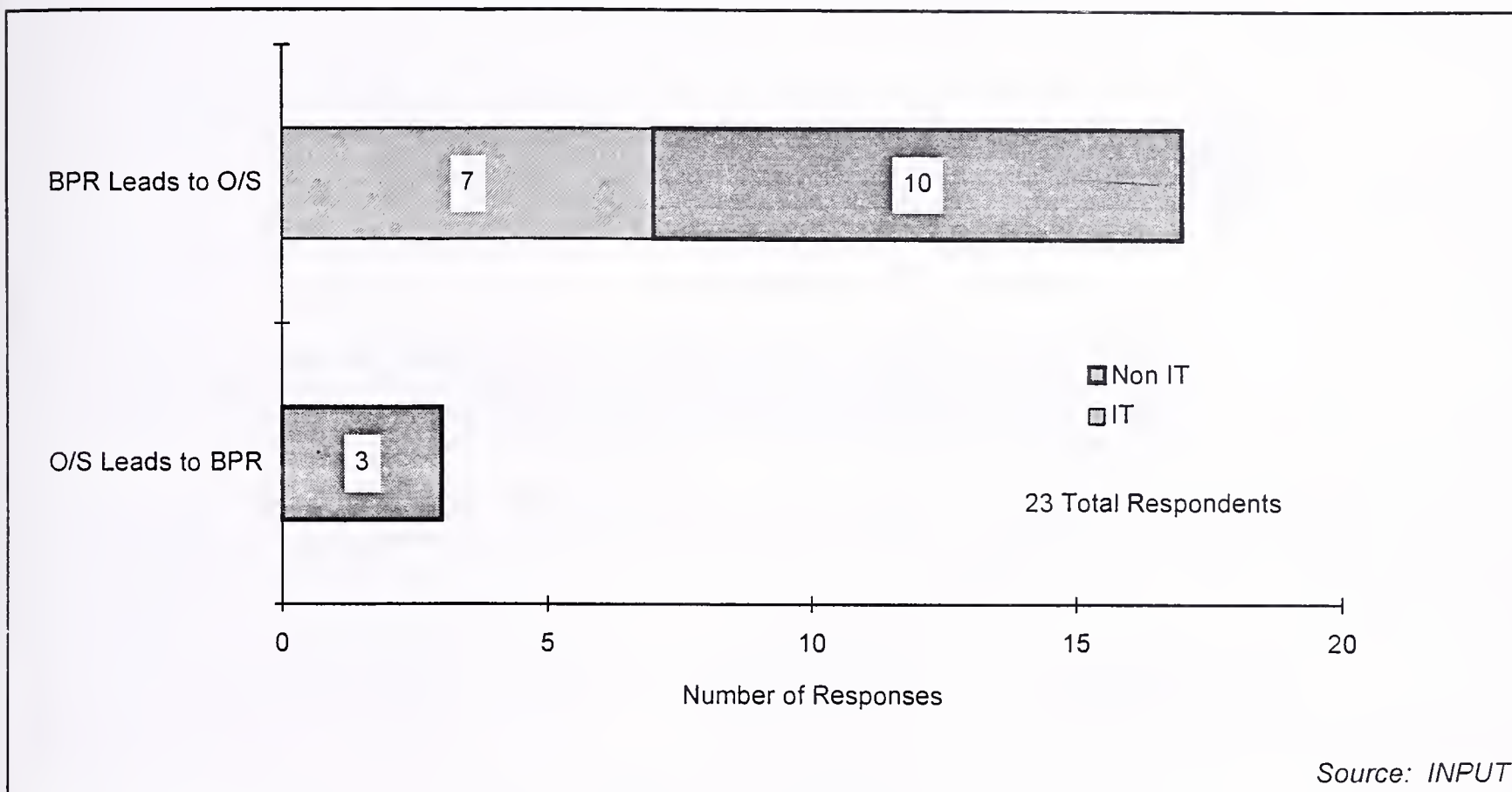
2. Sales and Operation

Vendors believe there is synergy in the sales process between BPR and outsourcing. Chapter IV will discuss the vendor's view of the purchase decision for these services. Most of the vendors interviewed believe the purchase decision for these services are made at the same organizational level—the CEO/COO. The sheer magnitude of most outsourcing contracts usually require approval at the highest corporate levels. BPR studies that focus on core processes or strategic consulting may also require this level of involvement. BPR studies that are function-driven can have the decision driven at the division or functional management level.

Two-thirds of the surveyed users said the decision maker for each service was different. This is another disconnect between vendor perception and user reality. The difference again may center on the type of BPR study conducted by these users but the difference still exists and the vendors should adjust their sales strategies accordingly.

Two-thirds of the users also saw BPR impacting the scope and the decision making process for outsourcing services. Some of the changes included:

- Changed the decision making system—tangible vendor selection criteria was established

- Identified non-core processes—expanded the processes considered for outsourcing

- Identified cost savings areas—translated potential savings into outsourcing vendor performance measurements

- Different technology—implementation required use of different computer platform and the need for transitional outsourcing.

In addition, BPR impacted the outsourcing contracting process. The changes effected by BPR included:

- Simplified the outsourcing agreement

- Caused more in-depth decision making

- Improved understanding of business requirements

The clear message is that BPR provided focus. The user better understood their business objectives and were then better able to translate those requirements into more effective outsourcing RFPs and contracts.

Exhibit III-11 shows that users believe that BPR impacts the content and contract substance of outsourcing services. This belief is shared by the IT organization as well as the other functional executives.

Exhibit III-11

BPR Impact on Outsourcing Content

OSBP

BPR Impacts O/S Contract

BPR Impacts O/S Scope

Non IT
IT

Number of Responses

15 Total Respondents
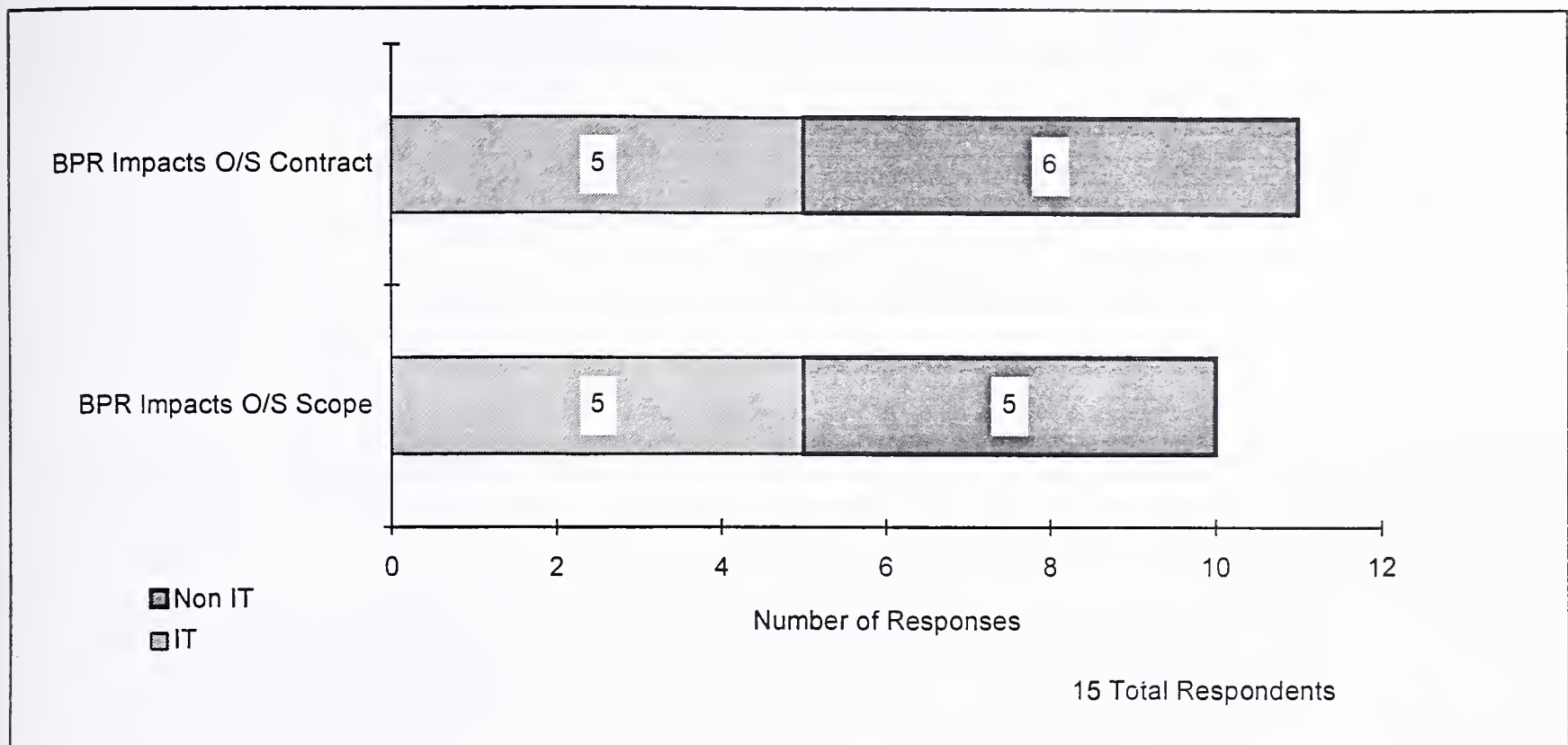
Exhibit III-12 summarizes the outsourcing projects that were launched due to BPR studies.

- The information systems function/process was the obvious leader in number of projects. It ranged from outsourcing the EDP Audit function to the more traditional outsourcing functions of systems support and communications.

- The Order-to-Collection process was the most frequent non-IT-specific process. Included in this process was: Order fulfillment, Transportation, Billing and Collections.

- Procurement/Supply Chain included the outsourcing of various purchasing functions and systems.

Exhibit III-12

BPR-Driven Outsourcing Projects

Process	Number of Mentions
Information Systems	5
Order-to-Collection	4
Procurement/Supply Chain	2
Finance	1
Payroll	1

Source: INPUT

Users believe that BPR is linked to outsourcing by clearly defining
the business needs and identifying processes that should be
delegated to external suppliers. Even though the user sample is too
small to make statistically significant projections, one result is
clear—BPR is a driver of outsouricng demand.

IV
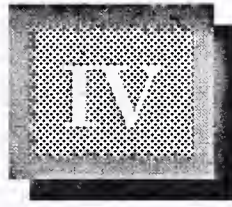
Competitive Environment

The outsourcing vendor population that considers Business Process Reengineering (BPR) a component of either their service strategy or service delivery mix, uses the Hammer/Champy definition (see Chapter III). "Radical Change" permeates the definitions but with the caveat of "continuous improvement" underlying any engagement. Change in business process, strategy, structure, people and technology is also part to the entire BPR definition. The BPR phenomena has launched expanded management consulting service offerings from IT-centric firms such as DEC, IBM, HP and Unisys. The outsourcing vendor community is looking at the potential for technology business growth requiring its entry into management consulting in general and the BPR market in particular. It is also looking to protect its customer base from competitors that provide services higher up the service value chain.. Exhibit IV-1 shows the relative position of how these vendors position BPR in the continuum of consulting.

Exhibit IV-1

BPR Positioning: The Vendor Perspective

Outsourcing Vendor Definition

| Strategic Services | Core Process Design | Function Process Improvement | Info. Tech. Reengineering |

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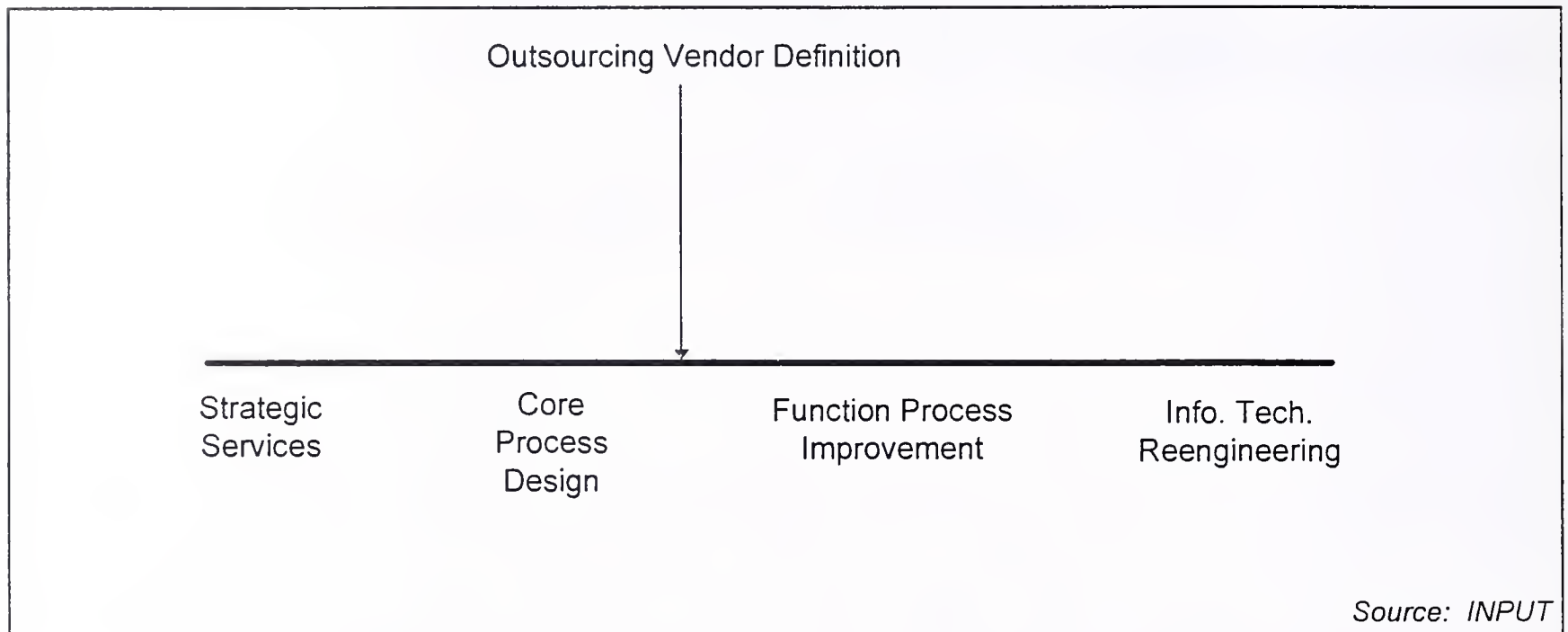
A

Span of Service

The span of consulting, implementation and operation services is depicted in the Information Service Spectrum in Exhibit IV-2. Traditionally, many vendors have specialized in a segment of the spectrum such as McKinsey in strategic consulting and Systematics in outsourcing. The onslaught of BPR publicity and, to a lesser extent, activity has spurred organizations to at least re-examine themselves and ask, "What business are we in?" and truly investigate the possibility of not performing all processes and functions themselves. Vertical integration is no longer an advantage, in fact the cost and complexity can become a disadvantage in a rapidly changing environment.

This is great news for service providers because it harbingers increased demand for their services. The problem is that the need identification is now an output of a consulting engagement that flies under the banner of Business Process Reengineering. The vendor performing this study may have significant influence on the implementation phase of the reengineering. In the past, these vendors were specialists (e.g., McKinsey, Bain, Boston Consulting, etc.) but this group has now expanded to include CSC (via CSC Index), Andersen Consulting, and even DEC, IBM and Unisys.

Exhibit IV-2

Information Service Spectrum

CORP STRATEGY	OPERATIONS STRATEGY	TECHNOLOGY STRATEGY	SYSTEMS INTEGRATION	OUT- SOURCING

Source: INPUT

BPR services clearly span the Information Service Spectrum. The interpretation of the categories of service involved under the BPR mantel varies by vendor but in its broadest context, can range from corporate strategy through technology strategy and may even include implementation activities.

One of the underlining assumptions used to expand the range of services to include BPR is the implementation—the tough part of reengineering. The full service vendors disparage the "credenza ware" produced by consulting companies. The implication of course being that consultants merely provide analysis without solution, whereas the full services vendors will become a partner with the client and help with the design, implementation, and even operation (i.e., outsourcing) of the reengineered process. Clearly, the full service vendors perceive providing a complete span of service from BPR through outsourcing is a competitive advantage for the following reasons(see Exhibit IV-3):

- Continuity of Service—One vendor providing the full range of services will minimize the confusion and inconsistencies that occur between BPR and implementation work.

- Accountability—Multivendor environments inherently lead to culpability problems. This can be exasperated between BPR vendors defining requirements and measurements and the outsourcing vendor responsible for meeting those performance objectives.

- Customer Partnership—The customer/vendor relationship is reinforced through various levels of the organization as well as from working together in the planning to the operation processes.

- Qualified Business Opportunities—BPR engagements help focus the customer on their requirements and lower the barriers of outsourcing services. A vendor that provides both services has already established a relationship with the client and fully understands the factors driving the outsourcing decision. The client receives the benefit of not having to restart the vendor qualification exercise.

Exhibit IV-3

Single Vendor Competitive Advantage

- Continuity of service
- Accountability
- Customer partnership
- Qualified business opportunities

Vendors believe that BPR can lead directly to outsourcing contracts. One result of a BPR study is identifying core processes. For each process (core and non-core) the client must determine if they should:

- Performed Internally—Vendors still see customers having a clear bias for keeping processes internal.

- Performed Externally—Delegate the process operation to a third party.

- Shared Responsibility—The client and vendor share operation of the process. Vendors are finding this a more palatable option than complete outsourcing for many clients. This transitions the client from an internal to external operation. It also builds the trust that an outsourcing relationship requires.

- Eliminate—Discontinue the process.

Clearly, BPR becomes an enabling component of the outsourcing decision, whether one or many vendors are used for BPR. Another reason for vendors to link BPR and outsourcing is the purchase decision for both services tends to be centered at the executive level.

Division executives are currently more involved in BPR than outsourcing but the final decision maker for both services resides at the CEO/COO level.

In some cases, vendors have found BPR studies have been launched due to outsourcing contracts. Moore Business Forms contracted with EDS to outsource their information services. Before the outsourcing contract was implemented, EDS discussed the reason Moore was outsourcing. The initial reason was dissatisfaction with the internal IS organization. Further discussion determined that this dissatisfaction was merely a symptom to a larger problem. This led to a BPR project conducted by EDS as well as the outsourcing contract.

B
Vendor Positioning

The battle for the customer's "mind share" is underway. Major investments have been made by major IT vendors to hire consultants from the traditional management consultant firms and establish consulting organizations that rival the "world class consultants" in capability and yet are connected to an organization that can provide the traditional technology-based services. This new set of capabilities allows these vendors to provide the complete range of services to their clients. Outsourcing vendors are being positioned to take advantage of the BPR phenomena by either becoming full service vendors or working with management consultants that do not intend to deliver outsourcing services.

1. Vendor Categories

a. BPR Vendors

Traditional management consultants specialize. Their customers are accustomed to using multiple consultants for different needs. Although certain consultants, such as McKinsey, choose to snub BPR as either being too narrow in scope or focusing too often on non-core processes, BPR has become a trigger for many consulting projects. Alliances are typically alien to these consultants. However, alliance may become a competitive necessity for these firms due to the encroachment of their market segment by the "full service vendors'" new management consulting practices,.

- Qualified Business Opportunities—BPR engagements help focus the customer on their requirements and lower the barriers of outsourcing services. A vendor that provides both services has already established a relationship with the client and fully understands the factors driving the outsourcing decision. The client receives the benefit of not having to restart the vendor qualification exercise.

Exhibit IV-3

Single Vendor Competitive Advantage

- Continuity of service
- Accountability
- Customer partnership
- Qualified business opportunities

Vendors believe that BPR can lead directly to outsourcing contracts. One result of a BPR study is identifying core processes. For each process (core and non-core) the client must determine if they should:

- Performed Internally—Vendors still see customers having a clear bias for keeping processes internal.

- Performed Externally—Delegate the process operation to a third party.

- Shared Responsibility—The client and vendor share operation of the process. Vendors are finding this a more palatable option than complete outsourcing for many clients. This transitions the client from an internal to external operation. It also builds the trust that an outsourcing relationship requires.

- Eliminate—Discontinue the process.

Clearly, BPR becomes an enabling component of the outsourcing decision, whether one or many vendors are used for BPR. Another reason for vendors to link BPR and outsourcing is the purchase decision for both services tends to be centered at the executive level.

Division executives are currently more involved in BPR than outsourcing but the final decision maker for both services resides at the CEO/COO level.

In some cases, vendors have found BPR studies have been launched due to outsourcing contracts. Moore Business Forms contracted with EDS to outsource their information services. Before the outsourcing contract was implemented, EDS discussed the reason Moore was outsourcing. The initial reason was dissatisfaction with the internal IS organization. Further discussion determined that this dissatisfaction was merely a symptom to a larger problem. This led to a BPR project conducted by EDS as well as the outsourcing contract.

B
Vendor Positioning

The battle for the customer's "mind share" is underway. Major investments have been made by major IT vendors to hire consultants from the traditional management consultant firms and establish consulting organizations that rival the "world class consultants" in capability and yet are connected to an organization that can provide the traditional technology-based services. This new set of capabilities allows these vendors to provide the complete range of services to their clients. Outsourcing vendors are being positioned to take advantage of the BPR phenomena by either becoming full service vendors or working with management consultants that do not intend to deliver outsourcing services.

1. Vendor Categories

a. BPR Vendors

Traditional management consultants specialize. Their customers are accustomed to using multiple consultants for different needs. Although certain consultants, such as McKinsey, choose to snub BPR as either being too narrow in scope or focusing too often on non-core processes, BPR has become a trigger for many consulting projects. Alliances are typically alien to these consultants. However, alliance may become a competitive necessity for these firms due to the encroachment of their market segment by the "full service vendors'" new management consulting practices,.

The vendors listed in Exhibit IV-4 represent a sample of non-outsourcing BPR vendors mentioned most often during this study. The Big 6 accounting firms are well represented in this market and with Cap Gemini Sogeti, provide implementation capability through systems integration practices. The traditional consultants still believe the skills and methodologies required to perform strategic consulting (which includes core process identification) is significantly different from those skills required to implement the redesigned process. The user perception seems to support this view (see Chapter III). Nevertheless, the BPR competitive environment is becoming more crowded and the specialists may be forced to think the unthinkable—establish alliances.

Exhibit IV-4

BPR Niche Vendors

Corp Strategy	Ops Strategy	Tech Strategy	Systems Integration	Out-Sourcing
Bain				
Boston				
Cap Gemini				
Ernst & Young				
McKinsey				
Other Big Six				

Source: INPUT

b. Full Service Vendors

Providing a complete service solution has developed an expanded meaning. It now includes providing customers strategic and tactical management consulting services. Consulting services that have very little technology content. BPR has provided a focus for these consulting activities. CSC has had a separate consulting

organization (CSC Index) to perform strategic consulting since its acquisition in the 1980s. The success and notoriety of the book *Reengineering The Corporation: A Manifesto For Business Revolution,* co-authored by James Champy, Chairman of CSC Consulting (CSC Index is part of this organization), has spurred demand for these consulting engagements.

In fact, CSC had its strategic consulting practice before it started its commercial outsourcing service in 1991. The other "full service vendors" started with technology services then hired consulting staff. Exhibit IV-5 summarizes the span of service for these vendors and Section C of this chapter provides a profile of their BPR and outsourcing strategies.

Exhibit IV-5

Full Service BPR & Outsourcing Vendors
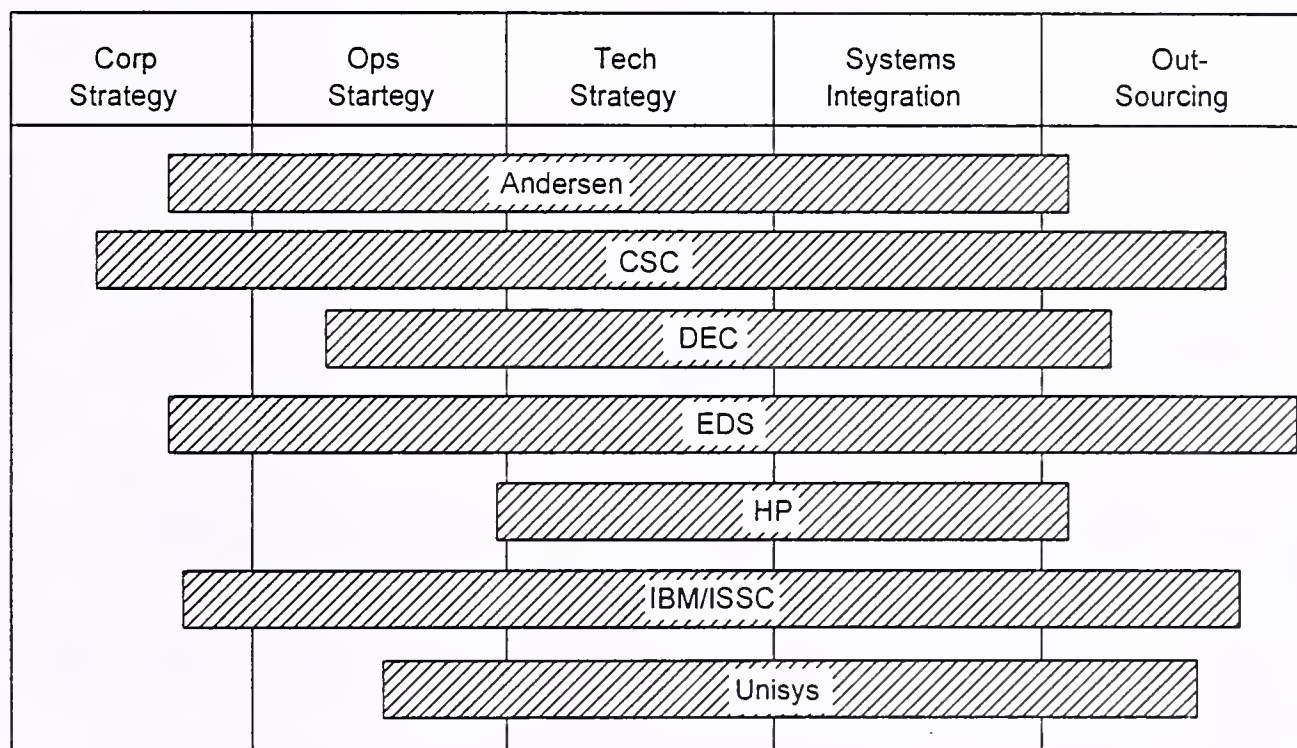
Corp Strategy	Ops Startegy	Tech Strategy	Systems Integration	Out-Sourcing

Andersen
CSC
DEC
EDS
HP
IBM/ISSC
Unisys

Source: INPUT

c. Outsourcing Vendors

Many of the leading outsourcing vendors have chosen to remain the "best of breed" solution provider in implementation and operation services. Some vendors are venturing into the realm of consulting, but primarily to identify the business need for their services. Systematics, for example, has a consulting organization that

focuses on the segment of their customer's business processes that are effected by Systematic software. These services tend to be bundled with other Systematics software. Alliances with management consultants for this group still are rare and if they do occur, are performed on a deal-by-deal basis.

For the most part, these vendors view BPR as a positive factor that may convince prospects that outsourcing is a valid approach for information systems associated with the reengineered processes or for entire non-core processes. BPR vendors may recommend outsourcing vendors but most outsourcers have not found BPR vendors to be a significant factor in the outsourcing decision. BPR has made outsourcing prospects more focused on their contract requirements, removed the barriers to outsourcing and triggered more interest in information systems services in general. BPR is a driver for outsourcing services. The question remains whether providing both services is a requirement. Exhibit IV-6 shows the span of service for the non-BPR outsourcing vendors.

Exhibit IV-6

Non-BPR Outsourcing Vendors
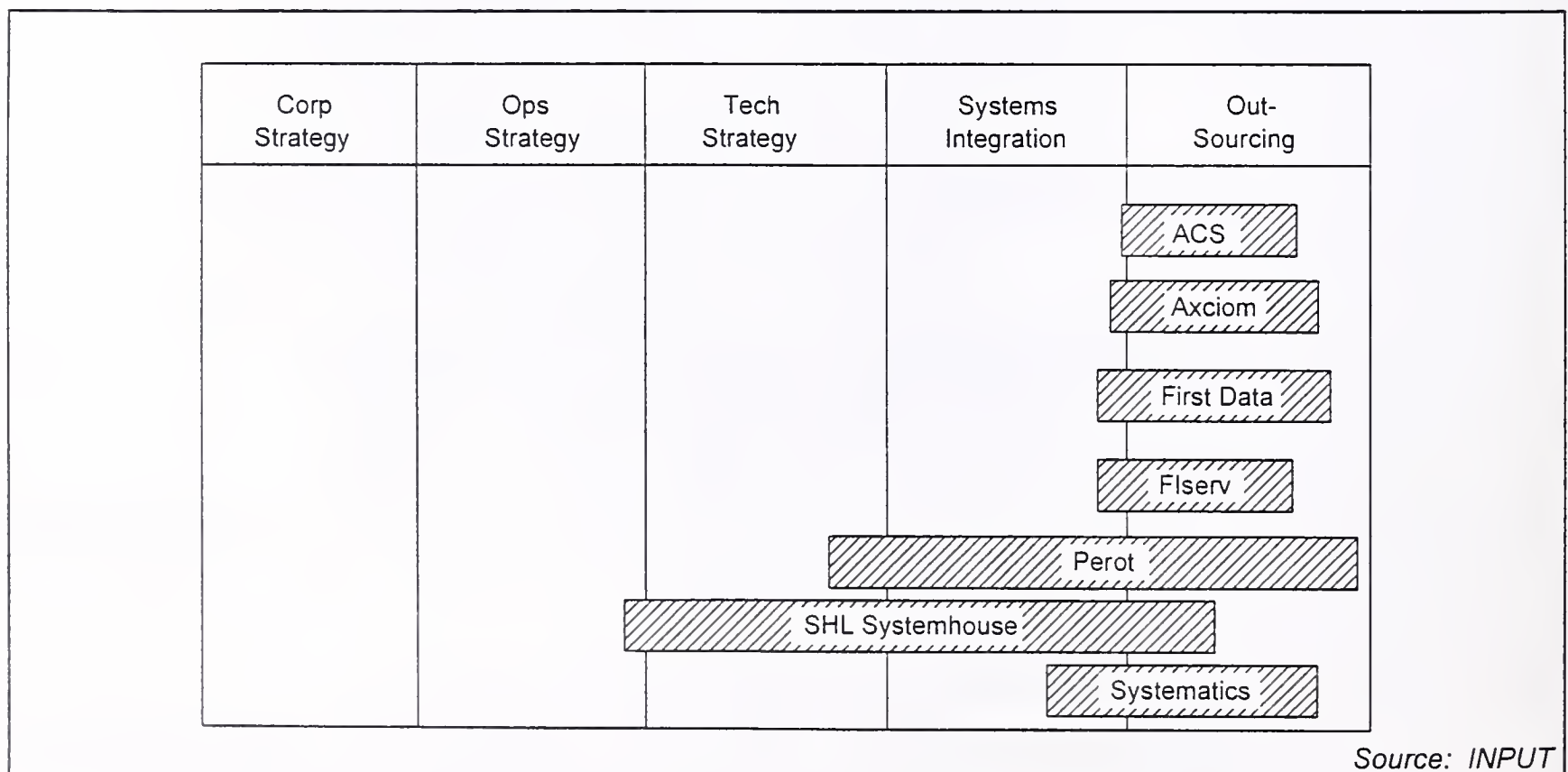
Corp Strategy	Ops Strategy	Tech Strategy	Systems Integration	Out-Sourcing
				ACS
				Axiom
				First Data
				Fiserv
			Perot	
		SHL Systemhouse		
				Systematics

Source: INPUT

OSBP

2. Vendor Relationships

BPR has not engendered a rush of partnerships between consulting and outsourcing vendors. The full service vendors have chosen, for the most part, to go it alone except for HP and DEC who have limited their BPR endeavors to non-strategic consulting. In these cases, McKinsey and Boston Consulting are used on a case-by-case basis. Even in these situations, the partnership takes the shape of a referral service where the system vendor recommends one of these consultancies for disciplines outside the systems vendor's core competencies (e.g., strategic consulting). Exhibit IV-7 lists the most often cited management consultants used in deal-specific partnerships by outsourcing vendors for BPR activities.

Exhibit IV-7

BPR Consulting Partners

- Boston Consulting
- Ernst & Young
- McKinsey
- Mercer
- Nolan Norton

Outsourcing vendors view of the leading BPR vendors is listed in Exhibit IV-8 and their view of the leading outsourcing vendors is identified in Exhibit IV-9. Andersen Consulting is perceived as a leader in both BPR and outsourcing. Andersen's strategy is to only provide outsourcing as part of a service solution that typically includes systems integration and some component of consulting. It appears that Andersen's full service strategy has gotten its competitors attention. CSC was the only other full service vendor to appear on both list of leaders. Full service, it appears, is a defensive strategy for most of the other vendors. Full service or best of breed? That is the question. There appears to be no single, correct answer.

Exhibit IV-8

Leading BPR Vendors: The Vendor's View

IV-10

Other
7%

CEO/COO/CFO
13%

Executive
27%

Director & Manager
53%
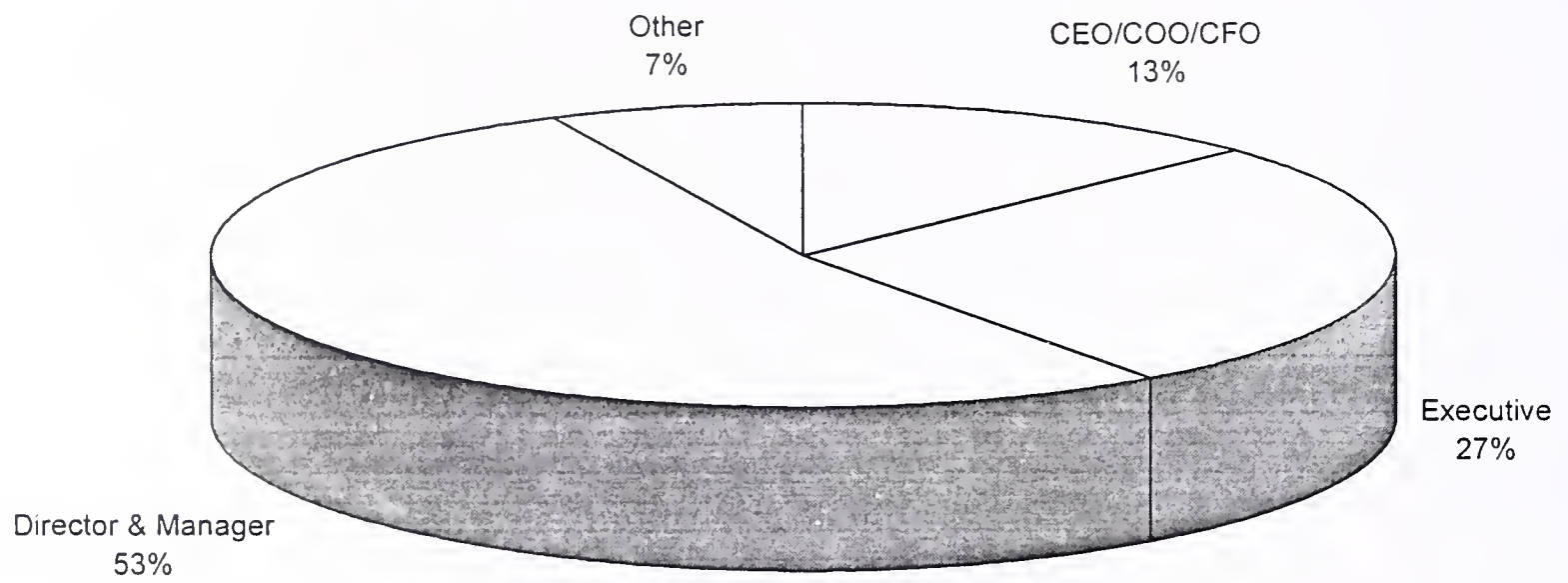
56 Respondents

Multiple Response, 68 Total Responses

Source: INPUT

Exhibit IV-9

Leading Outsourcing Vendors: The Vendor's View

Vendor	Responses
CSC	6
EDS	5
IBM/ISSC	5
SHL Systemhouse	5
Andersen	4

Source: INPUT

C

Vendor Profiles

The following are leading outsourcing vendors that also deliver business process consulting. These services may not be the classical BPR service but at least they focus on process improvement.

1. Andersen Consulting

Andersen Consulting provides services through the entire Information Services Spectrum (see Exhibit IV- 10). Its strength is systems integration (SI)) but recently it has increased its emphasis in Business Process Reengineering. In 1993, Andersen generated $775 million in revenue worldwide in BPR engagements. Exhibit IV-11 shows INPUT's estimate of Andersen's service revenue distribution for 1993.

Information Service Spectrum

Corp Strategy	Ops Strategy	Tech Strategy	Systems Integration	Out-Sourcing

Andersen

CSC

DEC

EDS

HP

IBM / ISSC

Unisys
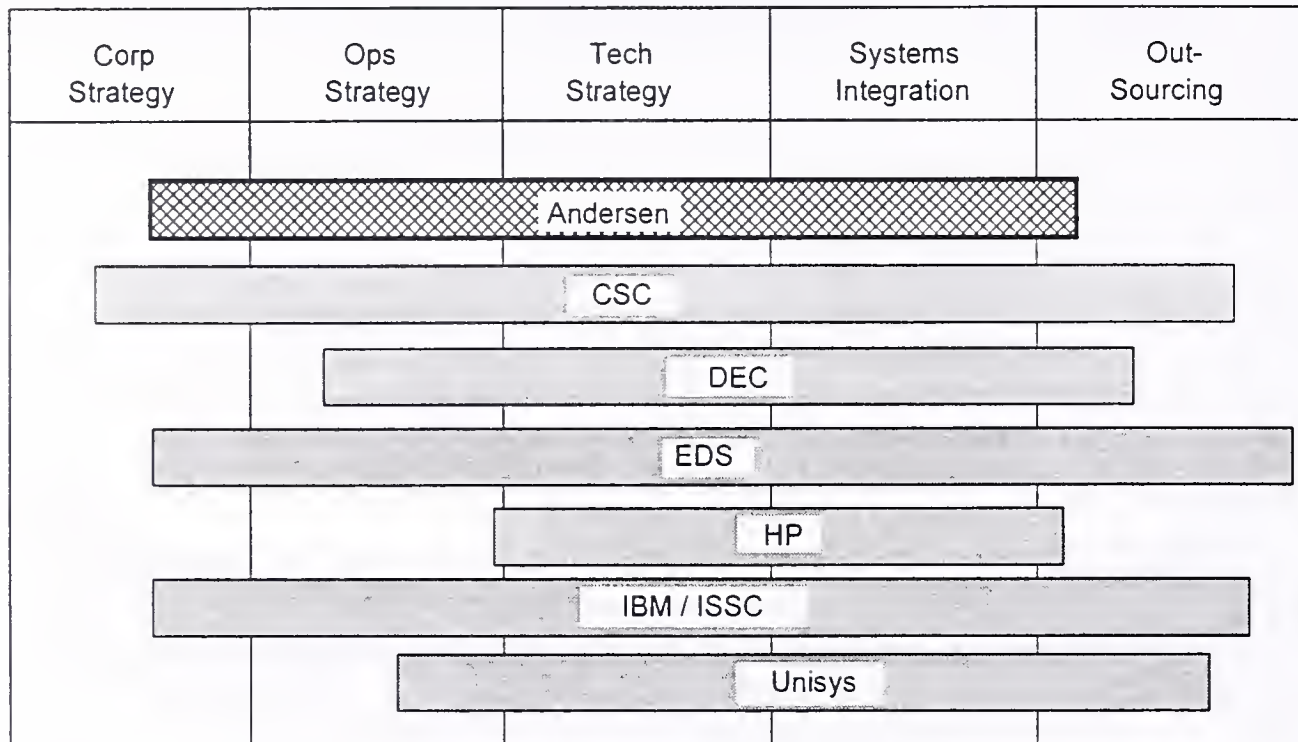
Source: INPUT

Andersen Consulting Information Services 1993 Revenue Distribution

BPR 27%

Other 62%

Outsourcing 11%
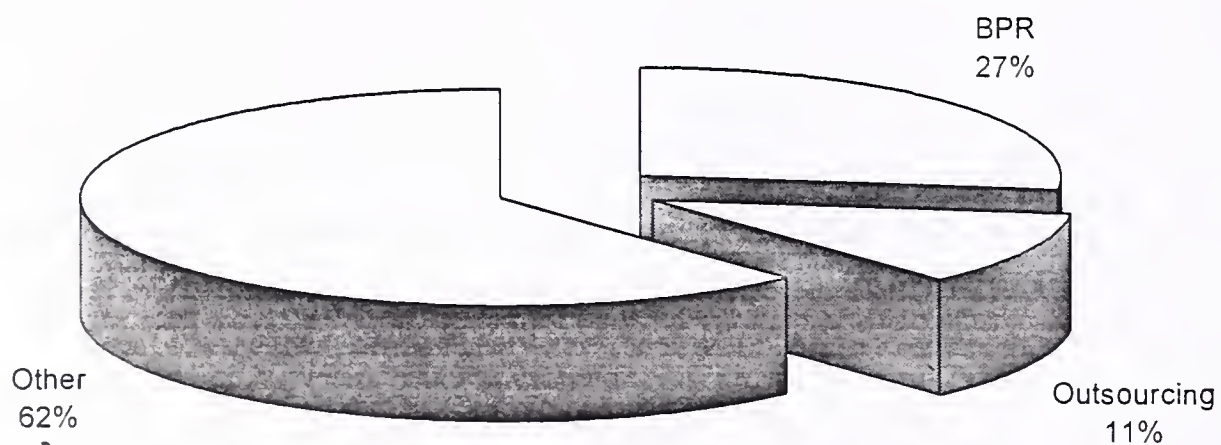
Source: INPUT

a. BPR

BPR is not a practice area at Andersen Consulting, but rather a consulting skill. Partners in each practice area, such as retailing or banking, have been given targets to ensure the staff is trained in

BPR. Out of 25,000 professionals, more than 3,000 have been involved in some aspect of BPR delivery for Andersen.

Andersen is bolstering its front-end strategy consulting and back-end Change Management Services℠ consulting practice using internal resources rather than partnering with other consulting firms more experienced in these areas. Andersen has effectively leveraged client interest in its process reengineering and information skills into front-end strategy consulting, previously the exclusive domain of Bain & Company, Boston Consulting Group, Booz-Allen & Hamilton and McKinsey & Company. Andersen will continue to make gains in delivering strategy consulting services, except for the most complex and sensitive strategy work such as divestitures, plant closures and discontinuing whole product lines.

b. Outsourcing

Business Process Management allows organizations to focus on their business mission while Andersen Consulting continuously improves and manages its IT systems and business processes (such as accounting, customer service and credit processing). The mission of the BPM group is to "offer the full benefit of core process re-engineering while providing the advantages of outsourcing".

Business Process Management has three areas:

- Application Management—Manages the development and/or maintenance of a client's applications. This is the largest segment of the BPM practice and builds on Andersen's systems development and systems integration strength.

- Operations Management/Network Integration—Manages the client's day-to-day data center operations as well as end-to-end network management of voice, data and multimedia networks. This includes full support of distributed environments.

- Business Function Management—Manages entire business processes for clients so they can focus on the competitively critical elements of their businesses. Processes managed include: accounting, order and claims processing, product planning and order fulfillment.

There is more emphasis on BPM in the U.S. and U.K. than in any other region. Application Management is also a major emphasis because of their logical follow-on to systems integration (SI)

engagements and SI is Andersen's strength. Andersen is trying to encourage its clients and prospects to look for "best-of-breed" outsourcing. This would give them an advantage for the application segment of the outsourcing contract.

Only a small segment of Andersen's current BPM clients made their outsourcing decision based on a previous BPR study. The reason for outsourcing (in descending frequency):

1. Client independently concludes they want to outsource

2. SI leads to BPM

3. BPR leads to BPM

c. Assessment

Andersen is expanding its strength in Systems Integration to become a respected supplier of Change Management services. Its entry into the upper reaches of BPR has been well received by its client base but its focus is still on the continuos improvement versus "radical change" area.

Outsourcing is a follow-on strategy for Andersen. The majority of its Business Process Management (BPM) practice centers on Application Management and its future direction in Business Function Management—outsourcing its clients non-critical, Information Systems-related business processes. The information technology infrastructure component of its BPM practice is there by necessity. Some clients demand that Andersen manage the infrastructure as well as the application and/or the business function. Andersen is focusing on its consulting and SI strength in its approach to outsourcing. The growth of BPR will increase the Business Function segment of BPM and reinforce Andersen's image of a full service provider.

2. Computer Sciences Corporation (CSC)

CSC is one of the leading information services companies in the world. In the last five years, CSC has shifted its focus from primarily a federal government service supplier to becoming a major force in information services in both sectors. In 1986, 70% of CSC business came from the federal market. In 1993, federal

accounted for 48% of CSC's $2.6 billion worldwide revenue (See Exhibits IV-12 & 13).

Exhibit IV-12

Information Service Spectrum

Corp Strategy	Ops Strategy	Tech Strategy	Systems Integration	Out-Sourcing

Andersen

CSC

DEC

EDS

HP

IBM / ISSC

Unisys
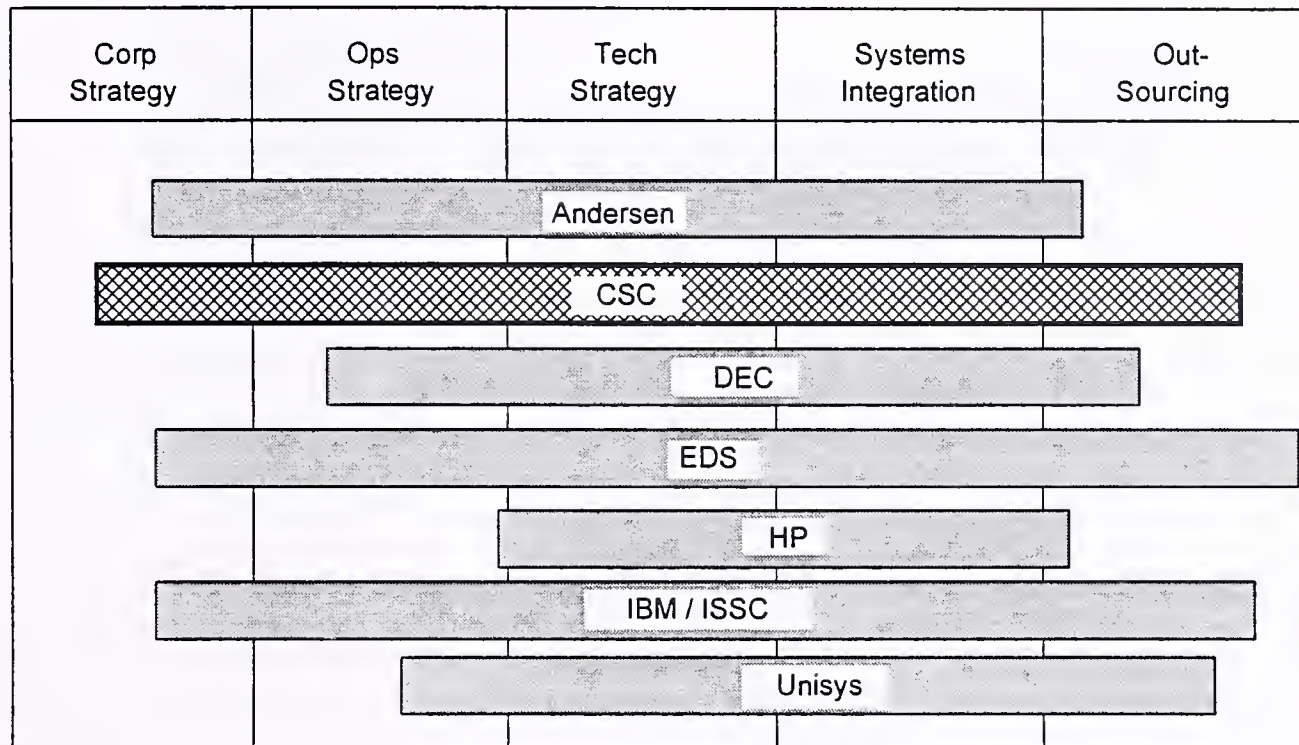
Source: INPUT

Exhibit IV-13

CSC Information Services 1993 Revenue Distribution

BPR
5%

Outsourcing
32%

Other
63%
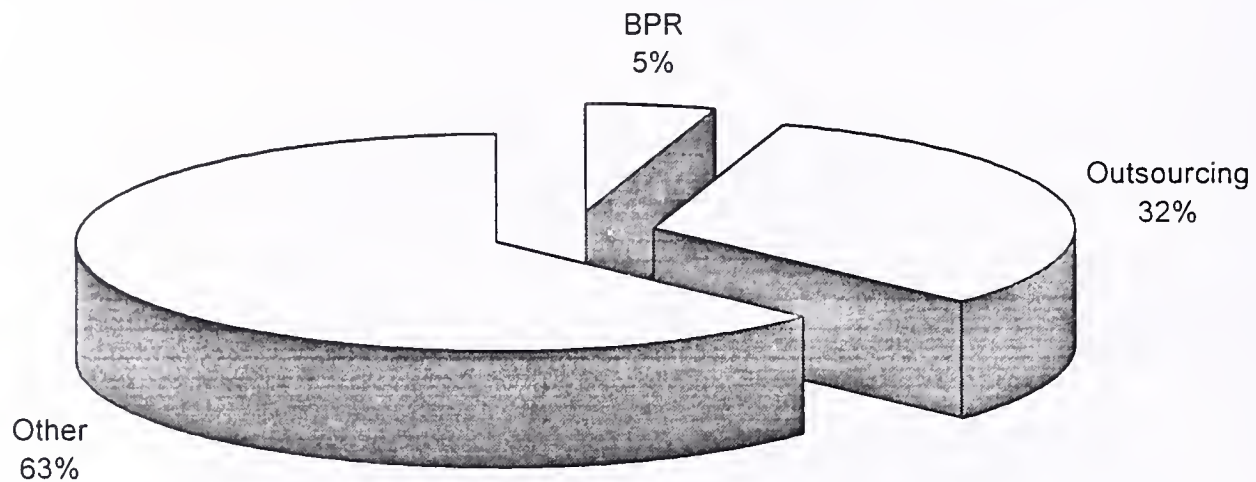
Source: INPUT

a. BPR

CSC Index is the management and technical consulting arm of CSC Consulting Group. The president of CSC Consulting is the co-author of a definitive book on BPR and was recently named an officer of the CSC Corporation based in large part on the strength of CSC Index's BPR work.

CSC Index is similar to Andersen Consulting, only smaller (250 consultants dedicated to strategy and process re-design engagements). CSC Index operates worldwide, though it has a North America focus. Its specialty is "large-scale BPR" consulting projects that require a collaborative effort with the client. There is no generally accepted standard of large or small consulting engagements. For BPR work, INPUT defines any project that bills more than $50,000 per month in professional fees as large scale.

BPR is claimed to be a practice area within CSC Index, but in reality it is a functional skill all CSC Index consultants are expected to possess. Organizational Change and Information Technology are the other two internal practice areas. Virtually all CSC Index's work is reengineering-related.

CSC Index has been the most effective marketer of BPR consulting services. It has used a variety of marketing tactics, including a controlled circulation magazine, partners accessible to the business

press, case studies, Champy's book, surveys and "for fee" executive seminars. These tactics are not generally used by other management consultants such as, McKinsey and Bain.

One of CSC 's challenges is positioning Index with its customers. Index would like to be viewed as an "independent" management consultant. The corporate strategy, however, is for Index to be one part of a complete range of services that include SI (through the CSC Partners organization) and outsourcing (through the Technology Management and Systems Groups). This is the same dilemma that the computer equipment manufactures first faced between professional services and equipment sales and now with its consulting practices and its SI and outsourcing services. CSC Index is a leader in the BPR consulting market despite its internal positioning battles.

b. Outsourcing

CSC launched its commercial outsourcing business in 1990 with the $3 billion, 10-year General Dynamics contract. This established an infrastructure of computer assets and operations personnel. CSC's strategy is to focus on large outsourcing contracts that generate at least $75 million per year. The commercial outsourcing business has grown, given this strategy to a revenue of more than $700 million in 1993. CSC concentrates its outsourcing business in three industries: Manufacturing, Retail and Utilities. CSC outsourcing strength resides in systems operations as well as application and network management. CSC has stated that all recent outsourcing contracts will include a systems integration component. Outsourcing is becoming the high visibility companion to BPR. CSC's strategy to pursue mega contracts guaranteed press coverage as the $1.5 billion British Aerospace contract and its unsuccessful bid for the $3.2 billion Xerox outsourcing contract demonstrated.

c. Assessment

CSC's objective is to be the preeminent Information Services provider in the world. Leveraging its technology, project management and business reengineering strengths to provide a complete range of services from strategic management consulting to information systems outsourcing. CSC has done an excellent job of creating a commercial outsourcing business and becoming one of the top BPR providers. The challenge is how to present the conflicting image of being an independent management consultant

(Index) and yet have a complete suite of services that can be linked together to provide a seamless service solution. Cultural differences between the entrepreneurial consultants and the technology-based systems providers may also prove an issue. CSC, however, has transcended similar problems by very successfully shifting its emphasis from the federal to the commercial marketplace. CSC is currently one of the leaders in the BPR and information systems outsourcing markets and its position should remain strong in both over the next three years.

3. Digital Equipment Corporation (DEC)

DEC, a technology company, increased its emphasis on information services with the creation of Digital Consulting in 1993. DEC has expanded its traditional technical consulting to include management consulting and has also established an outsourcing business unit within Digital Consulting organization. DEC's span of services is reflected in Exhibit IV-14 and INPUT's estimate of DEC's service revenue associated with BPR and outsourcing is shown in Exhibit IV-15 .

Exhibit IV-14

Information Service Spectrum
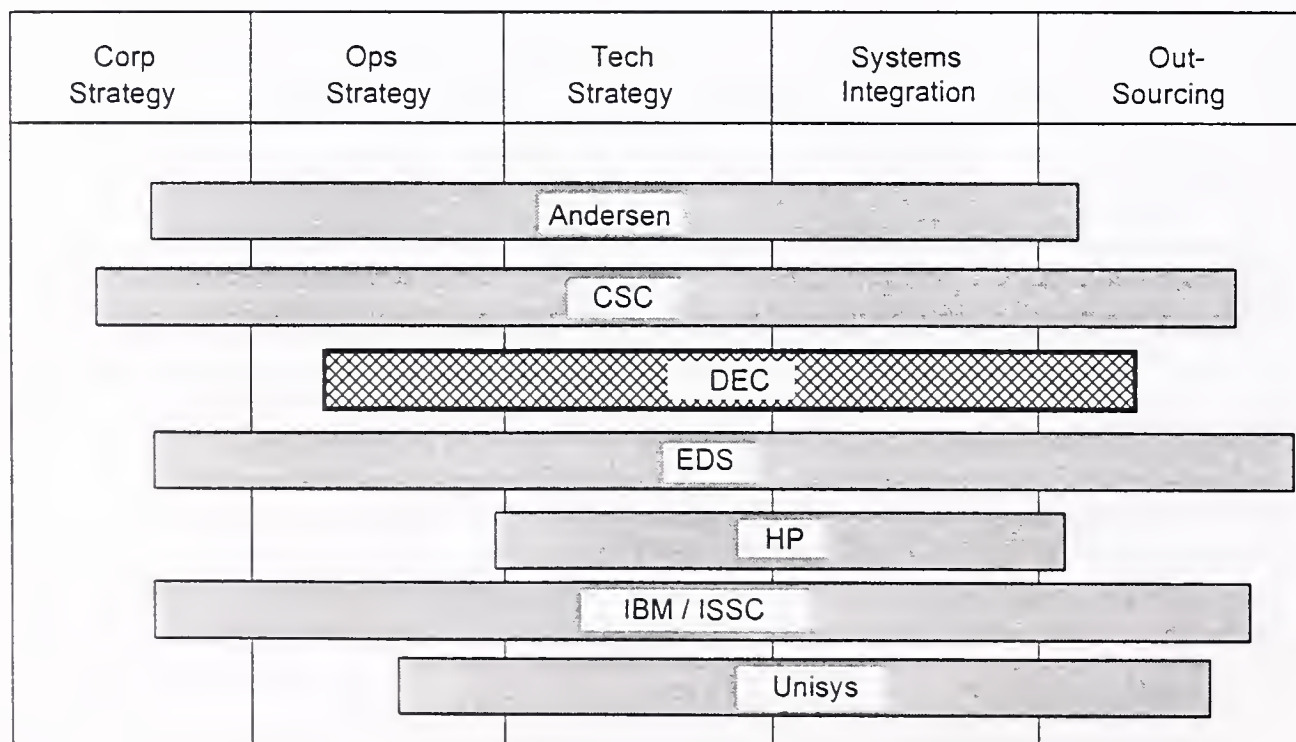
Corp Strategy	Ops Strategy	Tech Strategy	Systems Integration	Out-Sourcing

Andersen
CSC
DEC
EDS
HP
IBM / ISSC
Unisys

Source: INPUT

DEC Information Services 1993 Revenue Distribution

BPR
5%

Outsourcing
16%

Other
79%
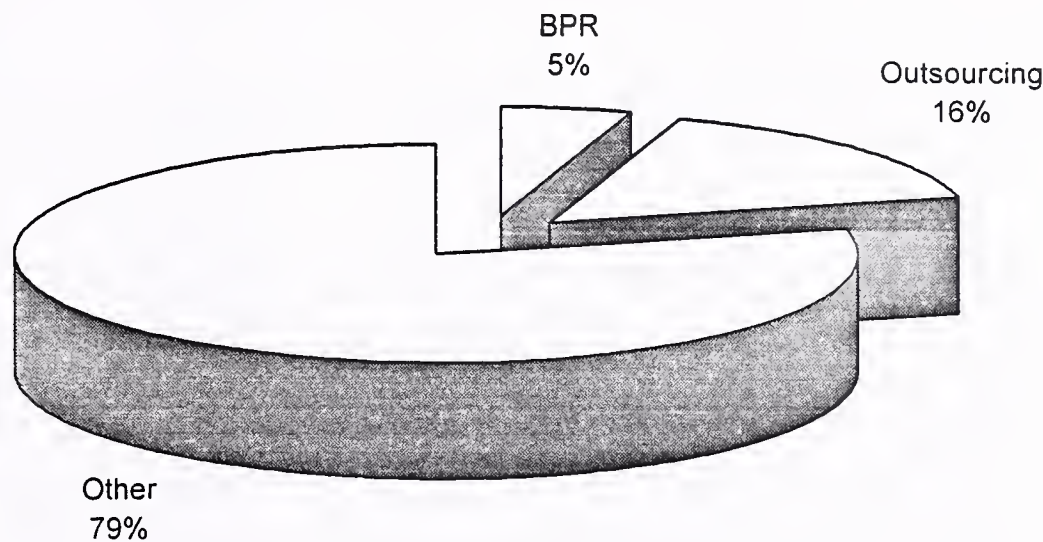
Source: INPUT

a. BPR

DEC focuses on its core competencies in its management consulting and does not perform corporate strategic consulting such as corporate strategic direction and market validation. Instead DEC focuses on enabling clients to become self sufficient by providing them the skills to perform their own BPR analysis. This is accomplished by DEC working with its clients during the engagements. DEC has found that clients can become self sufficient in nine to eighteen months. DEC believes its advantage is that it brings together skills in business process analysis, organization design and enabling technologies. More than half of DEC's BPR clients are first-time users of DEC products or services.

b. Outsourcing

DEC's worldwide outsourcing revenue for 1993 was $500 million. The majority of that revenue came from traditional data center operations projects but it has experienced strong growth in desktop and network services which accounts for only 30% of its current activity. DEC estimates that 30% of its outsourcing clients completed BPR studies prior to outsourcing. DEC views outsourcing as means to partner with a customer in an operating environment. Outsourcing removes the barriers to using outside firms to perform other process, including BPR and systems integration projects. Outsourcing is one of the continuum of services that DEC provides to its customers. This service strategy

provides DEC with the opportunity to maintain customer presence from process design through operation.

c. Assessment

DEC's focus on services through DEC Consulting is a clear message that DEC is in the service business. The question is whether the organization can maintain its breadth and depth of skills given the problems in other areas of the corporation. Another concern is how will the sales force—in the center of DEC's downsizing—sell services in general and DEC's version of BPR in particular. Clearly, DEC views having a suite of services that include management consulting (BPR) and outsourcing as a competitive advantage. The service span is still incomplete. DEC must still address business process outsourcing (i.e., outsourcing the business function as well as the associated information technology infrastructure). This can be either accomplished internally or through alliances, but without this service capability DEC will remain neither a niche player nor a full service provider in the business process arena.

4. Electronic Data Systems (EDS)

EDS is a world leader information services company. EDS defines its various services as follows:

- Systems Management (Information Systems Outsourcing)— Involves the ongoing management and operation of information technology components (computing, communications, applications and/or data). It may involve resources ranging from specialized systems applications to the customer's entire information technology function, including facilities and personnel.

- Systems Integration—EDS designs, implements and installs the appropriate combination of hardware and software integrated into a total system designed to fulfill the customer's processing and communications requirements.

- Systems Development (Professional Services)—EDS provides system creation, migration and improvements to meet customers' specific business needs for functional specifications and applications.

- Consulting (Professional Services)—These services include the development, refinement and coordination of strategies to support a client's business direction, impact business performance and improve operating results. Consulting is offered for business planning, business process design, technology strategy and planning and change management.

- Process Management (Business Operations Outsourcing)—EDS also provides ongoing responsibility for the direction and operation of one or more business processes within a client organization. This includes resources (acquisition, deployment, and use of people, facilities, technology, support functions and supplies), integration (linking business processes) and performance (accountability of performance measures).

EDS's span of services is reflected in Exhibit IV-16 and INPUT's estimate of EDS's service revenue associated with BPR and outsourcing is shown in Exhibit IV-17 .

Exhibit IV-16

Information Service Spectrum

Corp Strategy	Ops Strategy	Tech Strategy	Systems Integration	Out-Sourcing
		Andersen		
	CSC			
		DEC		
EDS				
		HP		
	IBM / ISSC			
		Unisys		
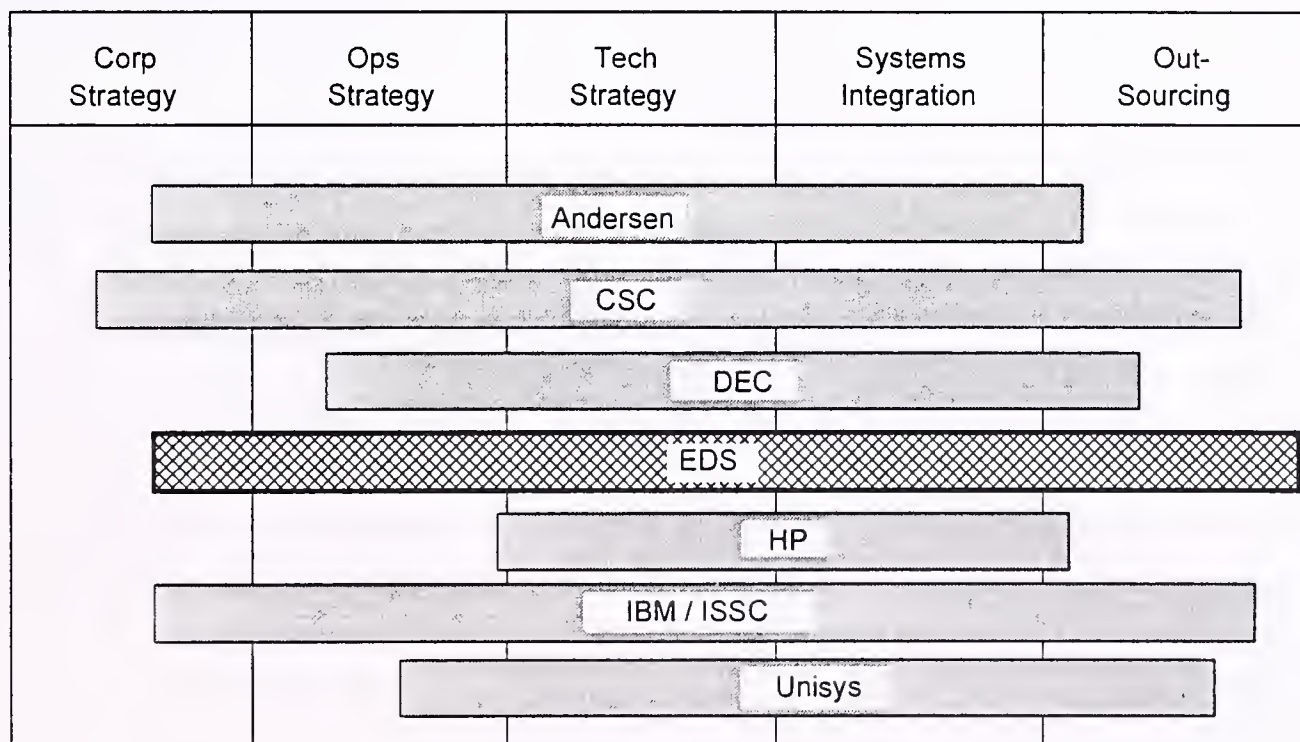
Source: INPUT

Exhibit IV-17

EDS Information Services 1993 Revenue Distribution

BPR
1%

Outsourcing
63%

Other
36%
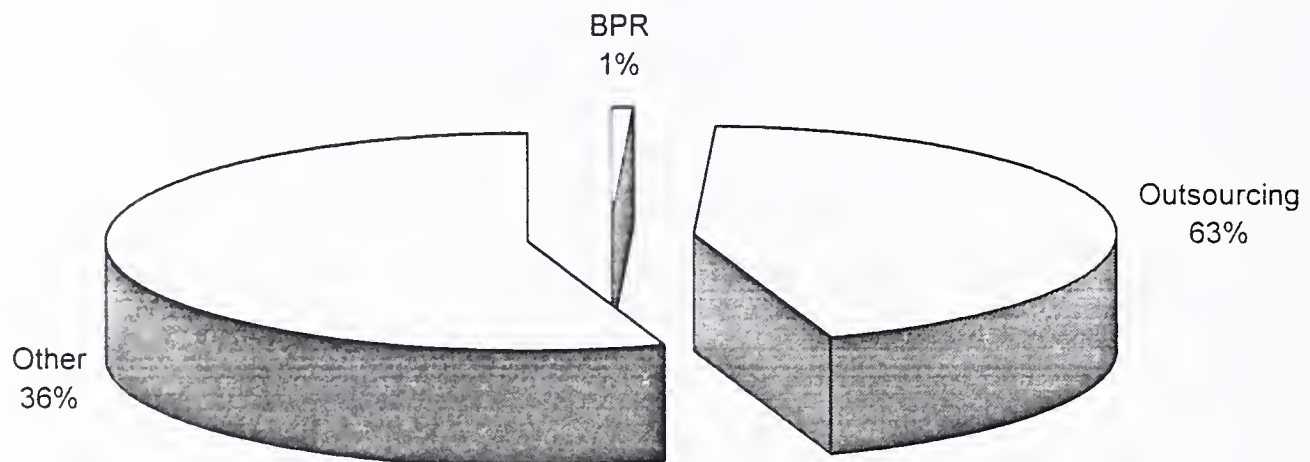
Source: INPUT

a. BPR

EDS is recruiting extensively from McKinsey, Booz-Allen and the Big 6 accounting firms to establish its business strategy and process reengineering consulting practice. EDS Consulting is headed by a Group Executive, a title normally reserved for business units $1 billion and greater. According to EDS, about 75% of EDS consulting engagements are BPR.

While not perceived today as business strategists, EDS's goal is to change market perceptions and earn more of its revenue from strategy and process redesign engagements. EDS's motivation to move into strategy consulting and process redesign was to influence the IS specification historically set by other consultants, and thereby take greater control over its future direction and growth.

EDS' mission is to fundamentally change clients' mind set from "Information Technology is a burdensome cost" to "IT is a core

technology, capable of being a strategic weapon." To do this, EDS principals call on CEOs, COOs and division general managers.

EDS differs fundamentally from its competitors, especially from the traditional management consultants. Whereas traditional consultants will start BPR projects at the corporate strategy-level, EDS will start at any level (process, people or technology) then cover the remaining areas. One-third of EDS's BPR engagements start at the strategic level and two-thirds start at the people, process, or technology level.

EDS perceives that customers want one company to provide the full range of services because of the potential confusion and accountability problems associated with different vendors performing the BPR, implementation and operation functions. EDS has invested a significant amount of resource based on this perception.

b. Outsourcing

EDS is the leading outsourcing service vendor. Until 1991, EDS had the commercial outsourcing market to itself. Smaller, niche vendors were in the market but clearly EDS was the "top of mind" vendor for outsourcing. In fact, one of EDS's challenges is to be viewed as more than an outsourcer by the marketplace. In the last three years the competitive environment has changed. IBM-ISSC and Computer Science Corporation have attacked this market with vigor. In addition, basic data-center outsourcing is coming under server pricing pressures.

This is a cost-based service with many competitors on a regional, national, and global basis. The price competition leads to margin pressures and in some cases, unprofitable contracts. This segment is also the slowest growing portion of the outsourcing market. Why continue to pursue this business? The reason to continue to pursue basic data center outsourcing contracts is that it becomes an entry point for follow-on outsourcing activities in the value-based outsourcing segments of network management, desktop services and business operations. EDS is also using this entry point for its entire service spectrum, from business operations outsourcing (process management) to BPR consulting studies.

Both systems integration and BPR feed opportunities to the outsourcing segment of EDS's business. EDS estimates 15 to 20%

of its BPR contracts lead to outsourcing business with the percentage to grow to the 30 to 35% range in three years.

c. Assessment

EDS is one of the few market-driven, information technology service companies in the world. It has very strong marketing and organizational support. It has the financial ability to participate in the mega outsourcing contracts and the industry knowledge in selected sectors to be a customer's business process manager. EDS has stated that it wants to become business partners with its clients, linking its entire suite of information technology services with business process-related skills while being compensated by sharing the business risk and reward with its clients (i.e., CoSourcing).

This migration from data center operations to the forefront of business strategic planning is a large leap. The competition is converging at the customer's business unit with BPR being the entrée to the customer organization. EDS will be facing a varied set of competitors ranging from its traditional rivals of ISSC and CSC, to a large segment of the consulting industry—Andersen Consulting, and Coopers & Lybrand, to McKinsey and Boston Consulting. EDS's delivery capability is strong and its broad service portfolio is another key strength, but the true test is, will EDS be able to market these services effectively?

Process management and reengineering services require different sales skills than the majority of the traditional EDS sales people. In order for EDS to achieve its considerable potential in this market, its sales skills must be upgraded.

5. Hewlett Packard (HP)

HP is a technology company that is increasing its emphasis on information services. In particular, two new organizations have been established in support of this renewed emphasis: Professional Services Organization which was established in 1991 and the Operations Services Division which was established in January 1994 to focus on selective outsourcing. HP's span of services is reflected in Exhibit IV-18 and INPUT's estimate of HP's service revenue distribution associated with BPR and outsourcing is shown in Exhibit IV-19.

Exhibit IV-18

Information Service Spectrum

Corp Strategy	Ops Strategy	Tech Strategy	Systems Integration	Out-Sourcing
		Andersen		
	CSC			
		DEC		
	EDS			
		HP		
	IBM / ISSC			
		Unisys		
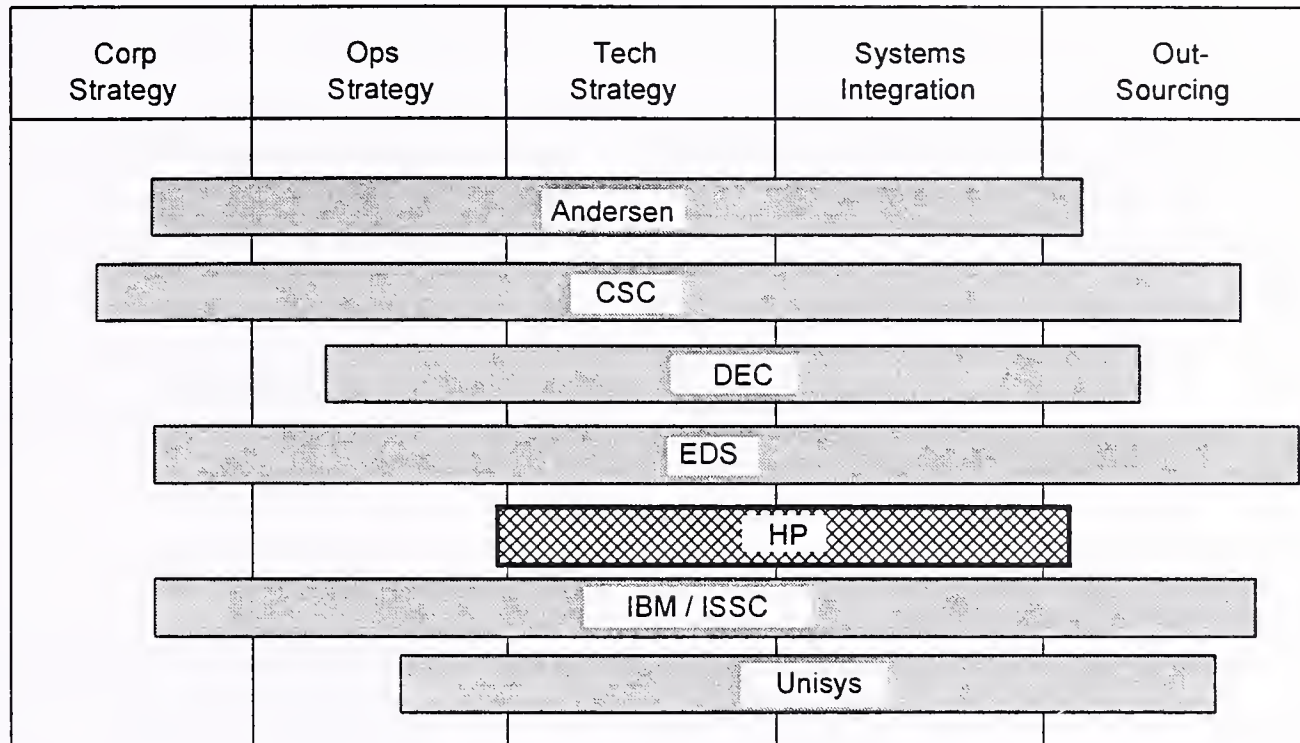
Source: INPUT

Exhibit IV-19

HP Information Services 1993 Revenue Distribution

BPR 1% Outsourcing 5%

Other 94%
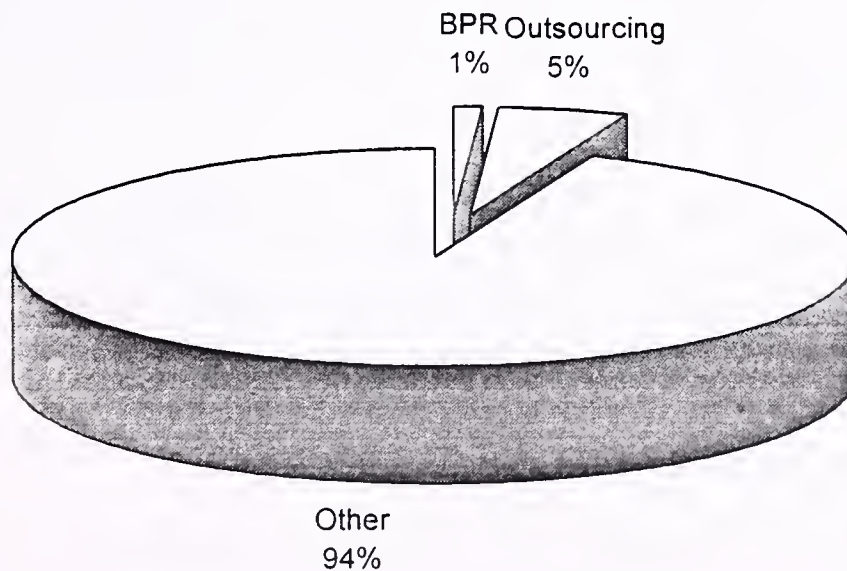
Source: INPUT

a. BPR

HP does not deliver BPR services as defined by Hammer and Champy (i.e., "Radical redesign of an entire business...significant changes in measures of output..."). It uses the broader definition of business process improvement and provides educational and consulting services in process identification, documentation and improvement. HP is applying internal techniques to satisfy customer requirements.   HP's BPR activity provides it access to higher levels in the customer organization than other services. The BPR services are sold to the division executive, or general manager whereas other products and services (except some outsourcing contracts) were being sold at the IS manager level.

b. Outsourcing

HP provides selective outsourcing services—where the customer outsources selective portions of its information systems environment to a third party and keeps the rest internal. HP's outsourcing focus is in an open systems environment and primarily for the HP customer base. The services it provides include: systems operations, systems management, network operations, network management, user services/help desk, business recovery services, site design and installation services. A key strength and growth area for HP is desktop services. HP has one of the most sophisticated desktop management environments and is applying its internal process, systems and methodologies for its desktop service offerings.

HP views itself as a niche player in the outsourcing market. It uses partnerships to fulfill client requests for services it does not want to perform. Although this service organization is new, there is a significant backlog for these services.

c. Assessment

BPR and outsourcing services were created by customer demand. In fact, HP's customers demanded that HP provide its innovative internal methodologies to customer's problems. It appears HP's services will succeed in spite of itself.   Service is still one of HP's best kept secrets. It also appears that even though there is an increase in service marketing activity by HP, it still lacks the service development mentality to proactively develop market-based services. The BPR trend coincided well with HP's recently

completed internal reengineering effort. The result was the development of continuous improvement methodologies that are now being launched as services.

HP's outstanding operation services including systems, network and desktop were developed primarily for internal purposes. These services are now part of HP's outsourcing service mix. HP is positioning itself as a niche player in the outsourcing and professional service market. Within in this construct, its service development strategy appears to be working perfectly. But the question persists: Is this a strategy?

6. IBM

IBM is the world's largest information systems service provider. In 1993, IBM services grew 32% but gross margin decreased from 18 to 15%. Part of the margin pressure can be attributed to the increased activity in large, highly competitive outsourcing contracts and IBM's investment in highly paid consultants for its management consulting practice. IBM provides a complete portfolio of services (see Exhibit IV-20) that range from BPR (IBM identifies this practice as Business Transformation) to all facets of outsourcing. CSC and EDS are the only competitors that can match IBM in the breadth and depth of information services. Of these three companies, IBM is the laggard in non-information systems management consulting and BPR engagements. INPUT's estimate of IBM's service revenue distribution associated with BPR and outsourcing is shown in Exhibit IV-21.

Exhibit IV-20

Information Service Spectrum

Corp Strategy	Ops Strategy	Tech Strategy	Systems Integration	Out- Sourcing
		Andersen		
	CSC			
		DEC		
	EDS			
		HP		
		IBM / ISSC		
		Unisys		
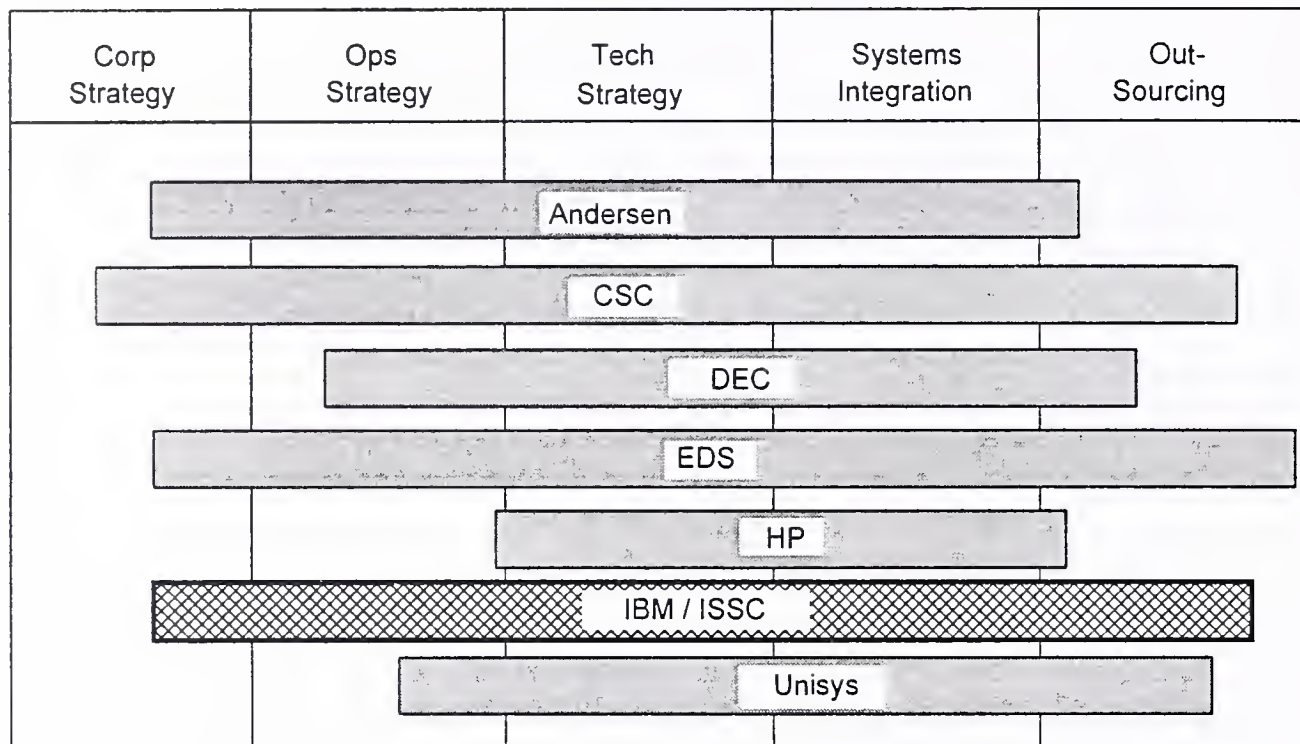
Source: INPUT

Exhibit IV-21

IBM Information Services 1993 Revenue Distribution

BPR
1%

Outsourcing
11%

Other
88%
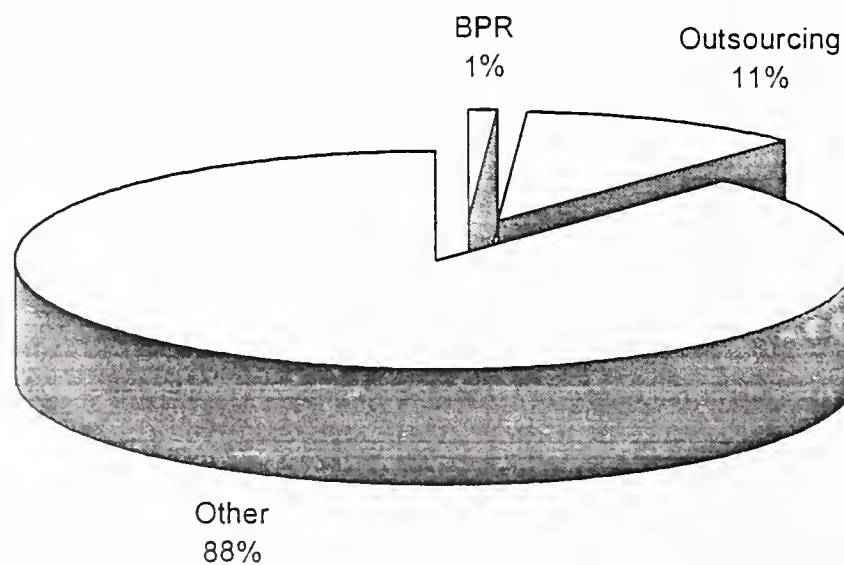
Source: INPUT

a. BPR

IBM Consulting was established in October 1992 to initially be the repository of IBM consulting ranging from BPR (Business Transformation) to IT-specific consulting. The group was primarily staffed by previous members of world leading consulting companies (e.g., Bain, Booz-Allen, and McKinsey).

The group also included practices in functional consulting (e.g., application development and network) as well as industry sector consulting. At the outset, IBM Consulting was a North America organization with only indirect international responsibility. One of its measures of success was the amount of follow-on IBM business it generated through other service or product sales.

Most of this changed in May 1994. At this time, IBM Consulting was given global responsibility, reporting to the chairman of IBM World Trade. In addition, IBM Consulting's primary practice focus became Business Transformation. The practices that focused on creating an IBM solution (providing needs analysis for system integration solutions) were transferred to the new Industry Solutions organization.

This is more than merely an organizational change. It positions IBM Consulting as the management consulting arm of IBM Corporation with focus on "business" consulting and not information technology consulting. It also attempts to provide an air of independence from the rest of IBM, removing the "follow-on business" metric from its success measurement. Similar to DEC, IBM Consulting is having a difficult time convincing the market of its independence.

The Business Transformation practice that also includes Total Quality Management consulting, is a tiny portion of IBM's service mix. The appearance of direct connection to other IBM products and services has been removed with this recent reorganization but the strategic importance to IBM of this organization must remain establishing or expanding the customer relations.

b. Outsourcing

IBM/ISSC is the second largest outsourcing vendor in the world. ISSC provides the complete range of information systems outsourcing services and IBM provides some business operation outsourcing in the human resource area. ISSC has an alliance with

Advantis, a joint venture of IBM and Sears, Roebuck & Co. Advantis provides the network management delivery for ISSC outsourcing contracts. The first successful venture between ISSC and Advantis was the $650 million, 10-year Equifax contract.

ISSC markets its services vertically which is consistent with IBM's new organization-wide sales strategy. ISSC's non-outsourcing services include: systems integration, information technology consulting and business recovery services. IBM's outsourcing services have grown rapidly over the last three years. INPUT estimates that ISSC's outsourcing revenue in 1993 grew 40%. This growth came at a price. Gross margin for services decreased in 1993 and it is assumed that some of the margin erosion could be attributable to winning highly competitive, large outsourcing contracts that may have had very thin margins. In the future, margin will be at least as great a driver for outsourcing business as revenue growth.

c. Assessment

The sheer magnitude of IBM's presence in the information services market makes them a major factor in any information systems-oriented service. BPR is not inherently connected to information systems but the implementation of the initiatives derived from BPR studies are clearly associated with information technology.

Similar to its major U.S. competitors, IBM has established a presence in the BPR market with an IBM version of management constancy, staffed by former management consultants and managed by a former Booz-Allen executive, Robert Howe.

The presence of IBM Consulting demonstrates IBM's commitment to meet its customer's needs through out the entire information service spectrum. Outsourcing, however is more than a "place holder service". It represents more than $1 billion in revenue and is consistent with IBM's strength in systems operations. With IBM's vertical solutions focus and the concentration of information systems service development and delivery in ISSC in the U.S., IBM is positioning itself to compete with its major competitor: EDS.

7. Unisys

Unisys is a $7.7 billion information technology company. As most "mainframe manufacturers", it has redirected its efforts to include

information services. In 1993, non-maintenance, information services accounted for 20% of revenue, growing at approximately 19% per year. Unisys's information services include three worldwide practices: Consulting, Systems Integration and Outsourcing. Exhibit IV-22 shows the span of information services Unisys provides and Exhibit IV-23 shows the distribution of Unisys service revenue.

Exhibit IV-22

Information Service Spectrum

Corp Strategy	Ops Strategy	Tech Strategy	Systems Integration	Out-Sourcing
		Andersen		
	CSC			
		DEC		
	EDS			
		HP		
	IBM / ISSC			
		Unisys		
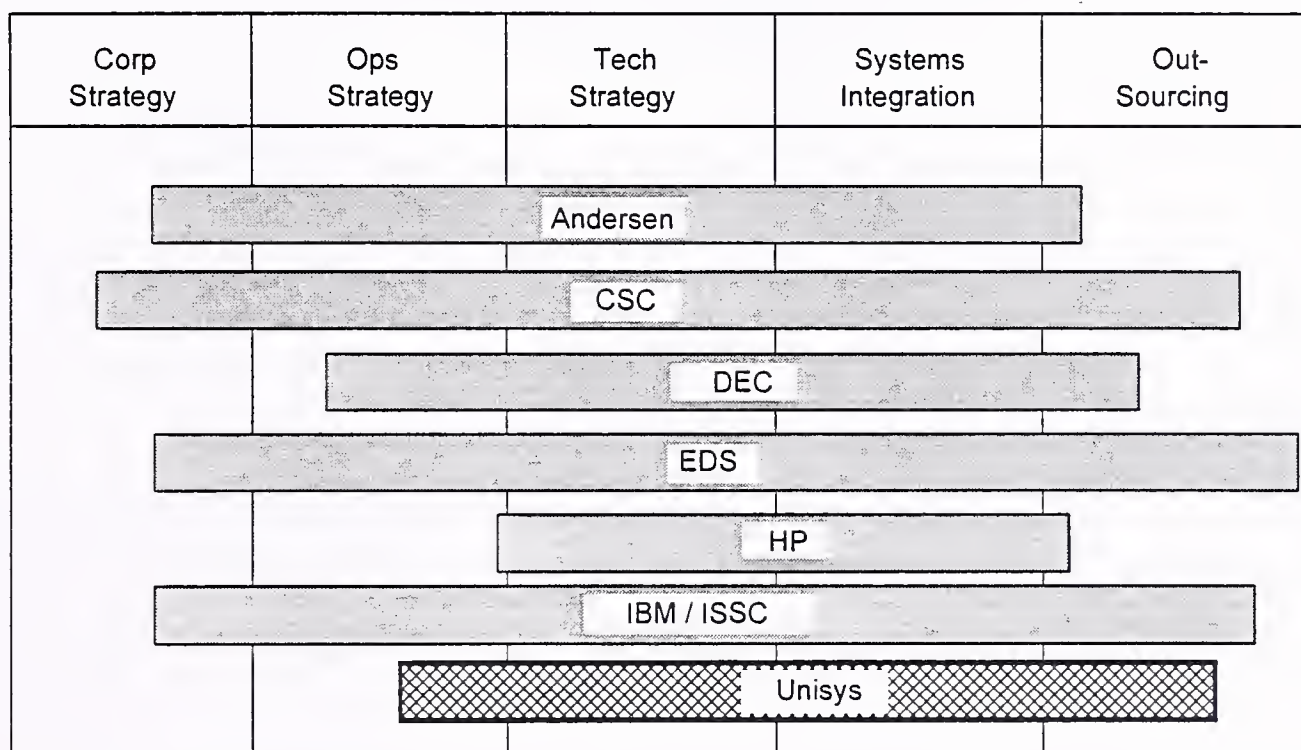
Source: INPUT

Exhibit IV-23

Unisys Information Services 1993 Revenue Distribution

BPR
1%

Outsourcing
6%

Other
93%
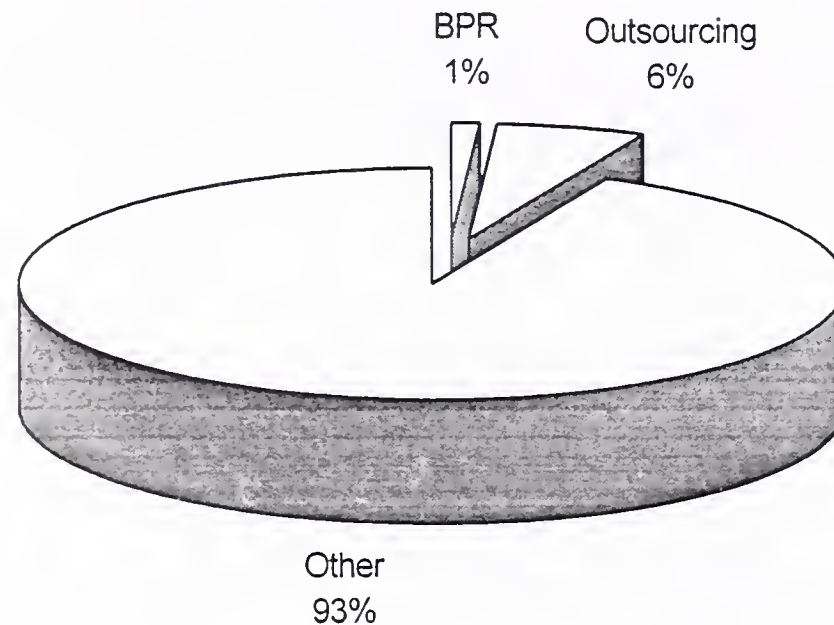
a. BPR

Unisys Worldwide Consulting organization is responsible for providing BPR consulting to Unisys clients. Unisys has only recently started performing BPR engagements and has an alliance with Mercer Management Consulting for BPR consulting. The extent of Unisys direct activity in this area appears to remain limited. However, Unisys believes it must provide a BPR service directly to its customers. It is concerned that its competitors are providing such a solution and that it may be at a competitive disadvantage without this service in its set of service offerings.

b. Outsourcing

Unisys provides the complete range of information systems outsourcing services although it does not perform business operations outsourcing. Unisys' strength in outsourcing is data center operations but application and network management is growing in importance. Unisys concentrates its sales efforts in four areas: banking, government, airlines and telecommunications. Outsourcing is being positioned as a standalone service and a part of a total service solution. Unisys is a second-tier outsourcing vendor with first-tier skills. Unisys must penetrate the non-Unisys

environments if it is to increase its visibility in the outsourcing market.

c. Assessment

Unisys, like all its competitors, is positioning itself as a total service provider. Its BPR initiative is more defensive than offensive. Most of its service customers are current Unisys customers, and by having a BPR alliance with Mercer it is protecting its client base. Unisys estimates that only 10% of its outsourcing clients have performed a BPR study with an outside firm. INPUT predicts that percentage will grow and the BPR vendor's recommendation may direct the client to another outsourcing vendor, especially if that vendor is also an outsourcer.

Outsourcing services have been delivered by Unisys under various labels for over 30 years. Unisys's outsourcing service capability has been a well kept secret. At the least, it appears Unisys is redirecting its marketing to mention service capabilities. It is amazing that Unisys can produce more than $1.5 billion in services revenue and be invisible in the marketplace. Non-IT management consulting will never be more than an image builder for Unisys but the breadth of its other services from IT consulting through systems integration and outsourcing need to be more actively marketed for it to reach its full potential.

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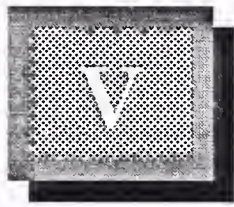
Case Studies

This chapter highlights two cases where business process reengineering and outsourcing services were performed for the same company. These cases, McDonnell Douglas and Xerox, represent two of the largest commercial outsourcing contracts in the world.

A

McDonnell Douglas Corporation

1. Background

On December 29, 1992, McDonnell Douglas Corporation (MDC) signed a 10-year, $3 billion outsourcing agreement with IBM's Integrated Systems Solutions Corp. (ISSC) subsidiary. This contract was the culmination of more than a one-year outsourcing decision, vendor selection and contract negotiation process. The outsourcing decision was triggered by McDonnell Douglas investigating its core business direction and determined it needed to focus on the aviation business.

2. BPR

McDonnell Douglas did not undertake a classical BPR exercise. It had conducted an internal reengineering study of its manufacturing process but more importantly, it had conducted an internal investigation of its core business direction. McDonnell Douglas determined that it only wanted to be in the business of creating and maintaining "things that fly". Thus, it looked to jettison other business, including information systems-related businesses (e.g., in November 1991, it sold McDonnell Douglas Systems Integration Corp. to EDS). The decision to focus on aviation led to a complete investigation of McDonnell Douglas's cost structure, resource

allocation and ultimately the decision to outsource information systems (see next section).

During the outsourcing vendor selection and contract negotiating process, it was determined that the business process affected by the outsourcing decision needed to be investigated. The business process definition project resulted in the development of a business process manual for the information systems business process.

This process definition became the foundation for the outsourcing business process and is used by McDonnell Douglas and ISSC (Exhibit V-1 is an example of the business process organization). The business process manual was developed by an internal team. One of the benefits of the manual was it became an effective communication tool to the user community for not only the business process but also for the roles and responsibilities of ISSC, McDonnell Douglas information systems organization and McDonnell Douglas's user community.

One of the shortfalls of the business process manual project was it began too late. The scope was much larger than planned and its use as a foundation for a communication tool was completely overlooked. Because of this, some user organizations were not well informed on the changes that were to occur.

Exhibit V-1

McDonnell Douglas/ISSC Business Process

Level 0	Level 1	Level 2	Level 3	Level 4

MDC/ISSC Business Processes
- Planning
- Service Authorization
- Service Delivery & Management
- Invoicing & Payment
- Contract Change
- Alliance/Synergy Business Opportunities

Service Delivery
- Telecom
- Shared
- Dedicated
- Business Operations
- Adds, Moves & Changes
- MDA Direct Charge
- Consulting

Business Operations
- Financial Performance Reporting
- Chargeback Process
- Acquisition
- Training Delivery
- Property Management

Service Management
- H/W & S/W Change Control
- Performance Measurement
- Problem Management
- Application Support

Performance Measurement
- Change Process
- Tracking & Reporting
- Incentives & Assessments

Source: Wendell Jones, SVP, NASD/NASDAQ

3. Outsourcing

McDonnell Douglas' decision to outsource information systems was driven by the need to:

- Reduce cost

- Liberate capital

- Downsize

- Acquire skills/expertise

- Improve return on net assets

- Focus on core competencies

- Receive a cash infusion

As noted in the previous section, MDC made a strategic decision to focus on the aviation business. The result of this new focus was the need to redirect financial and human resources to the aviation businesses and look for ways of reducing efforts in other areas. One obvious consequence was the need to reduce investment in subordinate business process and functions. Information systems was one area addressed.

MDC information systems environment during the outsourcing decision process in 1991 was:

- Two large centralized data centers (Long Beach, Ca. and St. Louis, Mo.)

- More than half the technology not in centralized data centers

- Extensive consolidation of mini and mainframe systems completed before outsourcing

- Increasing demand with decreasing budget

Initially, MDC only investigated outsourcing the Long Beach facility since it had two-thirds of the resources and cost. In addition, the St. Louis center was still consolidating systems and the consolidation of systems was already completed in California.

In January 1992, MDC constructed a RFP to outsource the western operation. It sent the RFP to EDS and IBM. In addition, MDC established an internal benchmark team to construct a competitive proposal. MDC intended that if the internal bid was superior to the external one, it would reengineer its internal process and keep the information systems process totally internal.

MDC limited its selection of outsourcing vendors to EDS and IBM because MDC believed these were the only vendors that had the financial capability to comply with MDC's requirements. The official responses to the RFP were due in June 1992.

The proposals received by the external and internal sources were very similar. Each identified some savings but all bids indicated that the true impact of outsourcing could not be realized unless the entire environment (St. Louis and Long Beach) were included in an outsourcing contract. In addition, the first bid indicated that application development and maintenance delivered lower cost savings than other aspects of the information systems function.

The primary reason for this was that the cost associated with application management was largely hidden, so savings were more difficult to quantify.

A second RFP was developed that excluded application development and maintenance but included the entire computing infrastructure. The information systems services included in the RFP were:

- Data Center operations

- Telecommunications (voice and data)

- Desktop Services

- Information Systems Business Operations (e.g. billing, chargebacks, procurement, financial reporting and training)

ISSC was award the contract. It was very aggressive in its pricing and the amount of cash it offered to buy MDC's computing assets. EDS dropped out of the competition and the internal bid of course could not compete with the cash infusion offered by ISSC (INPUT estimates that this amount exceeded $100 million).

MDC used external consultants to assist in the selection process and they were used in the following areas:

- Financial

- Legal

- Real estate

- RFP preparation

- General outsourcing contract negotiation and preparation

The outsourcing agreement with ISSC was for an estimated $3 billion over 10 years. The contract included the transfer of approximately 1,450 members of MDC information systems staff to ISSC or one of its business partners.

It has been approximately 18 months since the agreement was signed and the results have been generally good. MDC sources are satisfied with the results. The user organizations range in satisfaction from high to average (this range coincided with its

satisfaction levels with IS services before the outsourcing contract).
The biggest problem area is communications. The user community
was not clear on the roles and responsibilities as well as the
turnover process between MDC and ISSC.

The ISSC relationship is working well but ISSC views requests for
some services as being beyond the scope of the contract. MDC
views the negotiation process on the service content and cost for
these services as protracted in many cases. This has delayed the
timely transfer of other services to ISSC.

MDC believes the time it spent in benchmarking its current
environment and understanding its business structure were key
components in the current success of this outsourcing venture.

4. Assessment

McDonnell Douglas performed an internal strategic reassessment
to determine its need to focus on its core business: aviation. This
resulted in an extensive outsourcing decision and selection process
that has winnowed its internal information systems organization
from approximately 1,450 people to 15. The result of this
reengineering effort has been seen in the marketplace. Prior to the
start of the outsourcing decision process, MDC's stock was trading
at $40 a share, its recent price has risen as high as $120. Part of
this rise can be attributed to the investment community accepting
this change in direction. More importantly, MDC has refocused its
business and redirected its resources due to reengineering and
outsourcing. Exhibit V-2 summarizes the McDonnell Douglas
experience.

Exhibit V-2

McDonnell Douglas Corporation

BPR Source:	Internal
Outsourcing Vendor:	IBM/ISSC
Why BPR?	Refocus corporate direction
Why Outsource?	Economics

Source: INPUT

B

Xerox Corporation

1. Background

In 1990, Paul Allaire became CEO of Xerox. Since that time, in rapid order, Xerox has done the following :

1990—Redefined itself as "The Document Company"

1991—Developed the "Xerox 2000" strategic intent to lead the global document market

1991—Launched a reengineering investigation of the customer-contract process

1992—Declared war on costs and non-core businesses: divested itself of all its $3.6 billion financial service businesses

1993—Launched a six-month study of internal information management with a view to reduce operating costs by $150 million and improve productivity.

1994—Awarded a 10 year, $3.2 billion global outsourcing contract to EDS

Business process reengineering has been a centerpiece of Xerox's metamorphosis from an unfocused conglomerate to a company to a highly focused document company. Outsourcing's role is just being defined.

2. BPR

Xerox's has conducted BPR at all levels. It has started with strategic direction and its new identity as "The Document Company" and continued with a strategy of remaking itself into horizontal, customer-focused corporation. This required an emphasis on process versus function and a change in its organizational architecture. To accomplish this change, Xerox has taken people from functional roles and placed them into business-oriented approaches. It has designed information systems to support this process orientation but has yet to fully implement them. Xerox believes it must restructure its function-based systems such as sales, service and distribution to bring them together to the point of need—the customer. Xerox estimates it will take five years for the cultural aspects of this change to completely occur.

Xerox's organization has changed from a traditional, functional organization to nine business divisions that are divided into business teams. The business divisions set the strategy and provide the direction for the company. It is the "first line of bottom-line accountability".

Xerox views process reengineering as a critical enabler to make new organizational design effective. It is doing process reengineering in relationship with its business design. It believes a company can not do reengineering in a vacuum. The reengineering team must know the business strategy and organizational philosophy so it can design a business process to support it.

Xerox has many process improvement projects in operations that some people may describe as BPR. At the corporate level it has three major BPR projects: integrated supply chain, time to market and proposal-order to collection. BPR is cross-functional in any organization and Xerox believes that the only way it can successfully be conducted is to put somebody in charge of BPR. Xerox has created the position of director of business process management as part of the information management function. This position reports to the CIO. This person's responsibility is to ensure that these BPR efforts progress, are consistent with the overall organizational architecture and are integrated with each other.

Xerox believes it has created a foundation for change with its quality program. Quality is viewed as a culture, the way it works, and as a common language. Xerox believes that BPR is the logical next step. It is taking the quality processes and instead of just doing continuos improvement, targeting an order of magnitude improvement.

(Portions of this section has been excerpted, with permission, from Digital's Enterprise Magazine, January 1994. Copyright 1994, Digital Equipment Corporation)

3. Outsourcing

In the fourth quarter of 1992, Xerox had mounting losses that were in part the result of poor economic conditions and the restructuring costs of its BPR efforts. To stop the flow of losses, Xerox announced its intention to divest itself of its financial services businesses and reduce costs throughout the corporation. One visible target was its $670 million information systems budget.

In 1993, Xerox launched an internal study of the IS operations. The study explored the efficiencies and long-term cost savings, as well as human resources and technical opportunities of having external management of Xerox's global information management operation. The study identified an estimated $150 million savings over a 10-year contract period for outsourcing a major portion of Xerox's information management environment.

The outsourcing decision was part of Xerox's worldwide restructuring program aimed at significantly reducing the company's cost base and improving productivity.

The finalists for the outsourcing contract were: CSC in partnership with Andersen Consulting, EDS and IBM's ISSC subsidiary in conjunction with Advantis. In March 1994, Xerox announced the selection of EDS as its outsourcing vendor. The reason for selection was operating cost—approximately $3.2 billion over the ten-year contract and the purchase of Xerox information systems assets for a reported $100 million as well as global support capability.

The contract was signed on June 14, 1994 and with its signing, EDS assumes responsibility for Xerox data processing, telecommunications and computer network services. In addition, EDS will provide and maintain the computer applications that

support internal Xerox business processes. Approximately 1,700 Xerox people and contractors will transfer to EDS. The transition is to occur in five stages between June 30 and the end of 1994.

The agreement does not affect any support or services for equipment, software or systems that Xerox sells directly to customers and "covers only services that support internal business processes". Thus the three critical BPR projects identified in the previous section: integrated supply chain, time to market and proposal-order to collection will remain Xerox's direct responsibility. Xerox is only outsourcing its subordinate information systems activities. Systems that support Xerox's strategic business direction (e.g. new products, customer service, etc.) remain the province of Xerox's information management organization.

4. Assessment

Xerox has clearly gone through significant changes over the last four years. Strategic redesign, BPR and outsourcing have all played (and continue to play) an active role in redefining the $17.2 billion document company. Xerox highlights the colossal change that can be driven by BPR. The sheer magnitude of its outsourcing agreement is less impressive than the strategic role outsourcing plays in its business direction. Although the vast majority of IS resources have been transferred to EDS, the IS strategic direction remains with Xerox. Outsourcing allows Xerox to focus its IS resources on achieving its strategic initiatives as it moves to become "The Document Company" for the next century.

Exhibit V-3

Xerox Corporation

BPR Source:	Internal
Outsourcing Vendor:	EDS
Why BPR?	Refocus corporate direction
Why Outsource?	Economics

Source: INPUT

VI
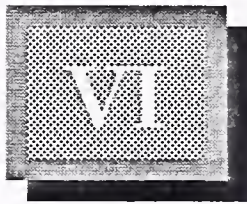
BPR & Outsourcing: Theory vs. Practice

Business Process Reengineering's popularity in the press and promotional brochures of many vendors imply the world is clambering to redefine itself. In fact there is activity in redesign and implementation of process change but the "radical changes" heralded publicly are not pervasive. More importantly, the prerequisite of using a single vendor for BPR and other services does not exist. Yet many vendors have invested heavily to establish BPR practices to augment their information service mix.

This chapter looks at the different and sometime conflicting views of users and vendors regarding the interrelationship between BPR and outsourcing (Section A), recommends actions for user organizations that are undertaking BPR projects and outsourcing contracts (Section B), and finally recommends the actions outsourcing vendors should take to take advantage of the BPR phenomena (Section C).

A

BPR's Impact on Outsourcing

BPR enables outsourcing. More than 75% of users and vendors believe BPR impacts the outsourcing decision. BPR's impact includes the ability to (see Exhibit VI-1):

- Articulate business reasons to delegate functions, processes, or a combination thereof to external providers.

- Redesign processes that not only cross organizational functions but also cross application systems that support those functions. The redesign of processes may require not only new systems but new technologies such as imaging, mobile computing, point of sale systems, etc. This new demand not only requires new systems but maintenance of legacy systems during the development of the new IT environment.

- Help the client focus on the customer and the processes that satisfy the customer's requirements. The external focus tends to put things into perspective. The customer is the priority. Once that is agreed, old bias are subordinated to achieving customer satisfaction in the most competitive and cost effective manner. Outsourcing becomes a standard alternative for many processes where it can demonstrate better business benefits than internal approaches.

- Provide focus on the business requirements. This should translate into outsourcing contract parameters and vendor compensation criteria.

In many cases BPR projects are performed with only internal resources but the impacts of BPR on the outsourcing decision described in Exhibit VI-1 remain the same.

Exhibit VI-1

BPR's Impact on Outsourcing

- Breaks the barriers to outsourcing
- Creates demand for IS services
- Focuses on the business
- Focuses on requirements

Outsourcing, however, has little impact on the decision to launch a BPR study. Vendors and users agree that outsourcing's only impact on the BPR process is to make the customer more open to the use of external resources in general.
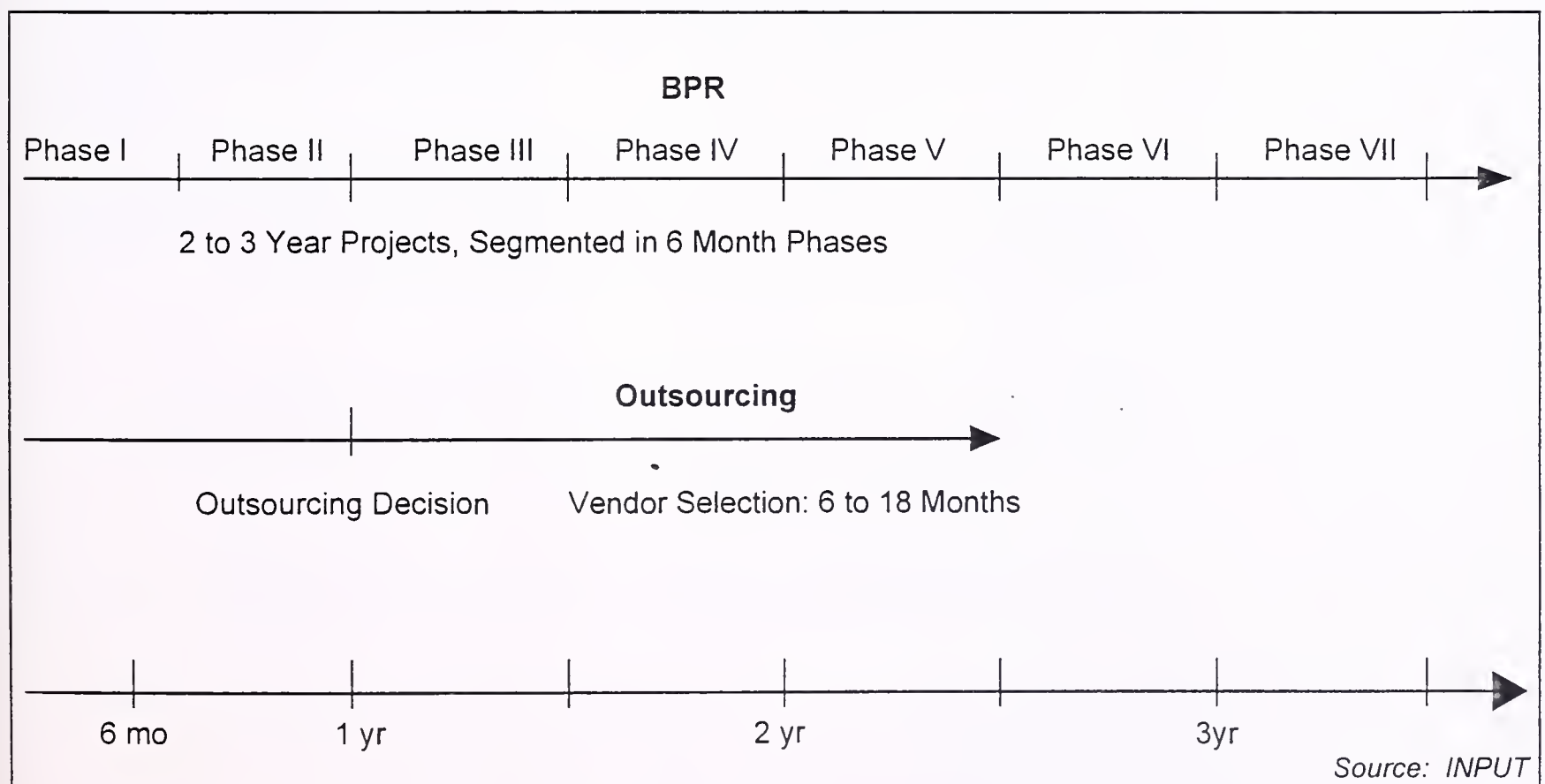
1. Timing

BPR projects typically last from two to three years but are constructed in three to six month phases. The reason for the segmented approach is to provide dramatic results quickly. In many cases, subsequent phases are financed by the initial phases of BPR. The users in the study that had their outsourcing contracts driven by their BPR studies found an approximate six month lead time between the start of a BPR study and the decision to outsource. INPUT's research has found that the outsourcing selection and contract negotiation process can take from six to eighteen months depending on the scope and complexity of the outsourcing engagement.

Given this timing (see Exhibit VI-2), the time from the start of a BPR project and the start of a resulting outsourcing contract can be two years or more. Since BPR, as a separate practice is less than three years old (it can be argued that BPR became popular with the Hammer & Champy book, published in 1993), it is very early in the process to see the true impact of BPR on outsourcing.

Exhibit VI-2

BPR/Outsourcing Timing

BPR

| Phase I | Phase II | Phase III | Phase IV | Phase V | Phase VI | Phase VII |

2 to 3 Year Projects, Segmented in 6 Month Phases

Outsourcing

Outsourcing Decision   Vendor Selection: 6 to 18 Months

6 mo   1 yr   2 yr   3yr

Source: INPUT

However, at this early stage of BPR development, indications are that there is a causal effect on outsourcing created by BPR. BPR can be viewed as an education process for the corporation—a means to focus on the important areas of the company without regard to organizational and functional structures.

Once the education process is completed, many companies find themselves reconstituted into a virtual entity that includes external suppliers for not only selected IS services but also for inventory management, accounts receivables and possibly even customer services. BPR can not only reinvent the company but can also reinvent the "sourcing" of operational processes and functions. The major impact on a company's "sourcing" model is one of the few items that vendors and users agreed upon during this study.

2. Different Perspectives

User demand and vendor services need to align in order for customer satisfaction to occur. In the relatively new linkage between BPR and outsourcing, there are more differences than similarities.

a. Definition

The vendors are relatively consistent with their definition of business process reengineering. This is true for all classes of vendors that participate in this market:

- BPR vendors—This group is comprised of management consultants who primarily analyze and recommend action in the BPR discipline (e.g. Bain, Boston Consulting and McKinsey)

- Full service vendors—These vendors provide at least some form of BPR analysis and deliver outsourcing services (e.g. CSC, DEC, EDS and IBM)

- Outsourcing vendors—These vendors do not participate directly in the BPR market (e.g. ACS, FIserv and Systematics)

In all vendor categories, the traditional definition of BPR was used: "...the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance." The full service vendors
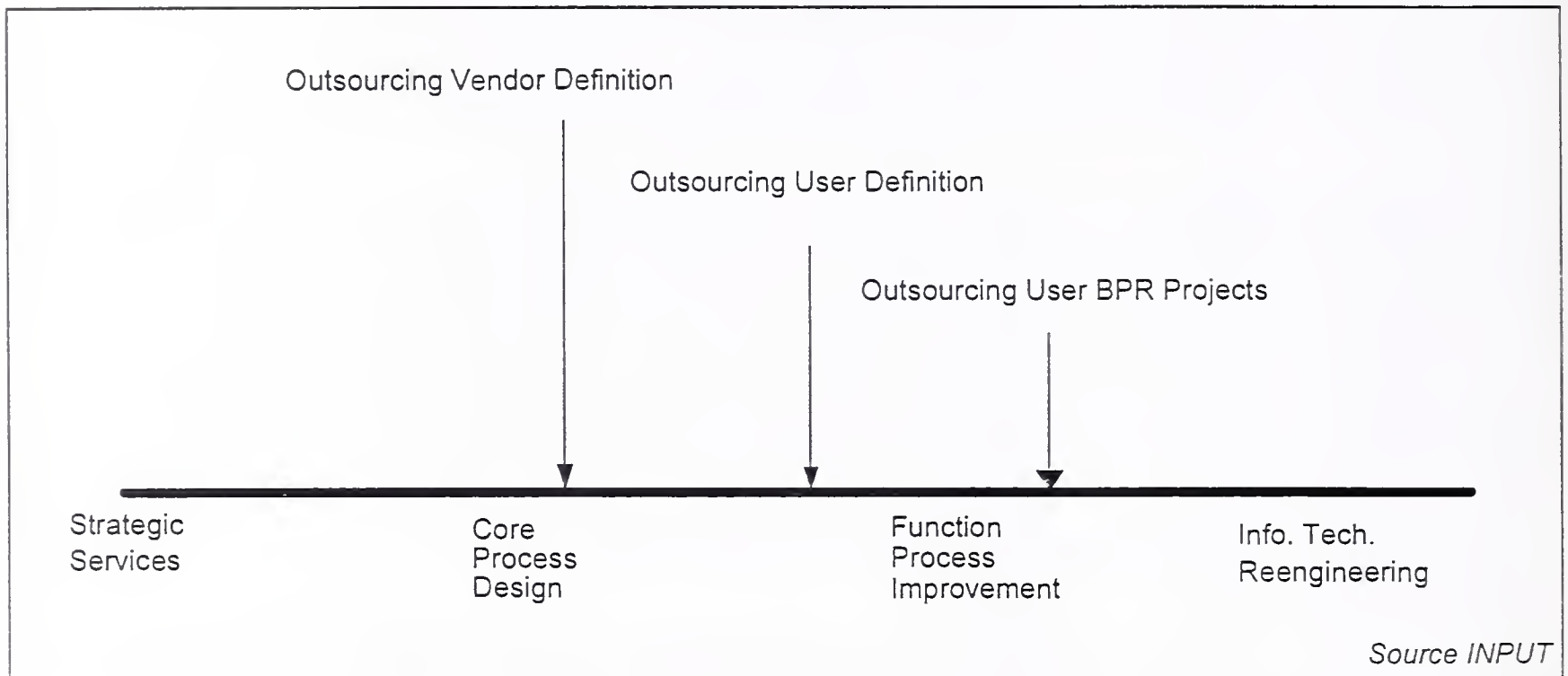
have invested heavily to acquire the skills necessary to deliver these services. Even outsourcing and niche vendors such as SHL Systemhouse and Systematics have added "management consulting" in some fashion to tap into the apparent insatiable need for consulting services that transcend business and technology.

Enter the user. Although some of the users interviewed could quote Hammer & Champy in defining BPR, more than 45% of the respondents saw BPR as continuous improvement not process redesign(see Chapter III). This has created a definition gap between the vendor and user as shown in Exhibit VI-3. In addition, nearly 80% of the companies' identified BPR projects (18 of 23 companies) were either focused on process improvement or information technology reengineering.

Remembering the respondent companies all have either completed or are conducting at least one BPR study and each are currently outsourcing some segment of their information systems activities, we can conclude that this sample contains the leaders in linking both services. These early implementors are a harbinger of the future. Therefore, even though BPR vendors focus on high-end BPR activities (i.e., core process redesign), the bulk of the activity is occurring (and will continue to occur) in the lower end of the BPR spectrum—the process improvement sector.

Exhibit VI-3

The Definition Gap

Outsourcing Vendor Definition

Outsourcing User Definition

Outsourcing User BPR Projects

| Strategic Services | Core Process Design | Function Process Improvement | Info. Tech. Reengineering |

Source INPUT

b. Suppliers

Vendors and users perceive the suppliers of service similarly. The vendors and users interviewed see Andersen and CSC as the leaders in BPR. Interestingly, Ernst & Young was the second most mentioned BPR vendor by the vendor panel and was merely one of the second tier vendors according to the users in this study. The traditional management consultants received minimal mentions, with McKinsey leading the pack and only Cap Gemini (i.e., Gemini Consulting) making it to the list of leaders.

From the user perspective, this may be directly linked to their perception of BPR, more tactical than strategic. However, the vendors interviewed included all the full service vendors cited in this study as well as a representative sample from the outsourcing and management consulting categories. These vendors also saw Andersen, CSC (i.e., CSC Index) and Ernst & Young as the leaders (and leading competitors) in the BPR arena.

The technology companies (previously known as computer manufacturers) who have invested heavily to become full service providers in the BPR and outsourcing arena (e.g. DEC, IBM and Unisys) do not make either the user or vendor list. These companies' BPR practices are relatively new (under two years old), so the momentum may not of had time to build. Exhibit VI-4

summarizes the perceived leading vendors in BPR from the vendor and user perspective.

Exhibit VI-4

Leading BPR Vendors
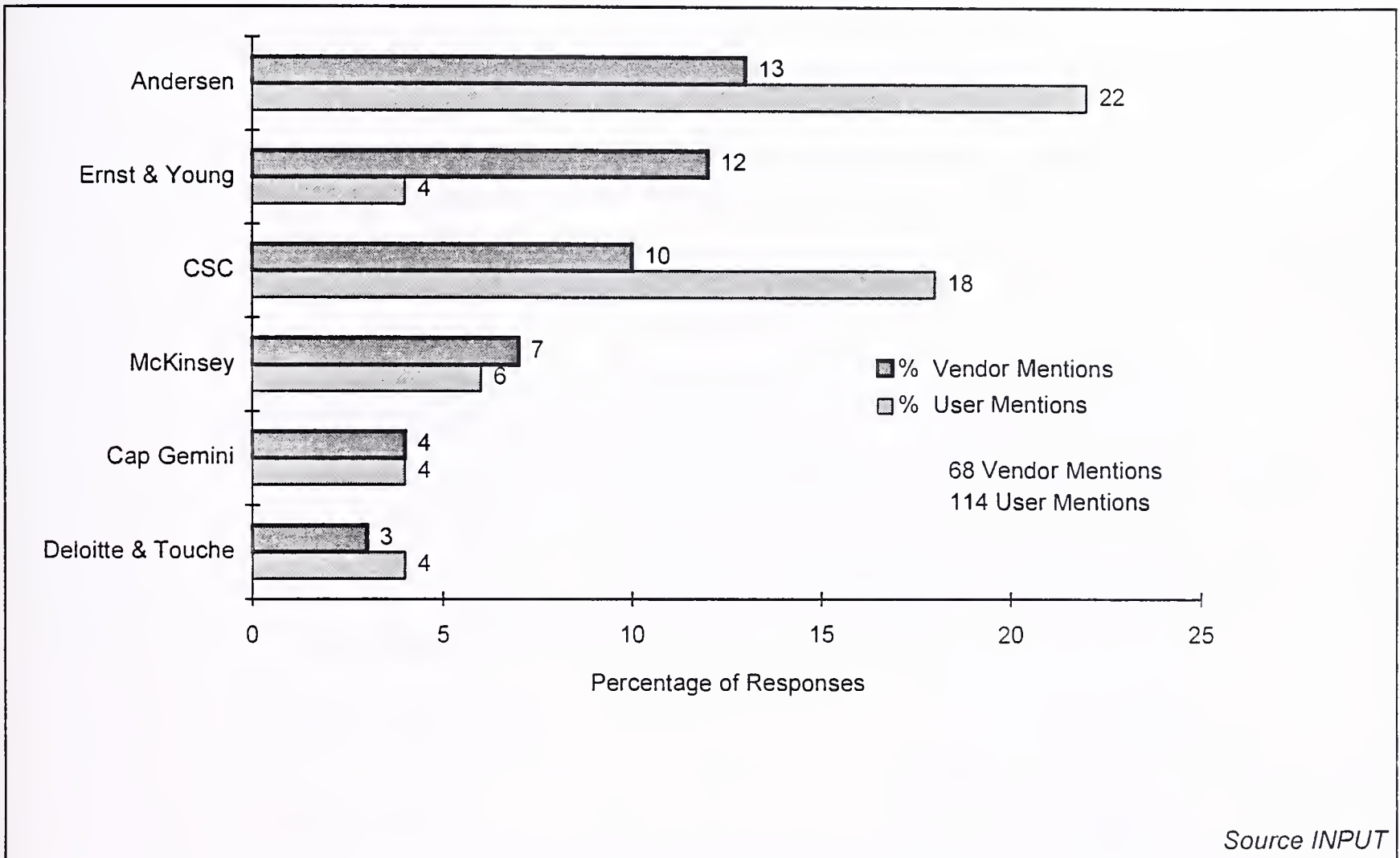
The leading outsourcing vendors contain two main differences between vendors and users:

- Vendors perceive a top echelon of outsourcing vendors that include CSC, EDS, IBM/ISSC, SHL Systemhouse and Andersen Consulting.

- Users see CSC as a second tier outsourcing provider (they have primarily participated on the mega contract-level of more than $200 million and the number of contracts they have won in the commercial market is still relatively low). Users do not perceive SHL Systemhouse as an outsourcing vendor. In the last two years SHL has coined the transformational outsourcing label but this service has not registered with the user community, although the outsourcing vendors are definitely aware of it.

Exhibit VI-5 lists the leading outsourcing vendors as identified by the studies user and vendor panels in this study.

Exhibit VI-5

Top Outsourcing Vendors

Source: INPUT
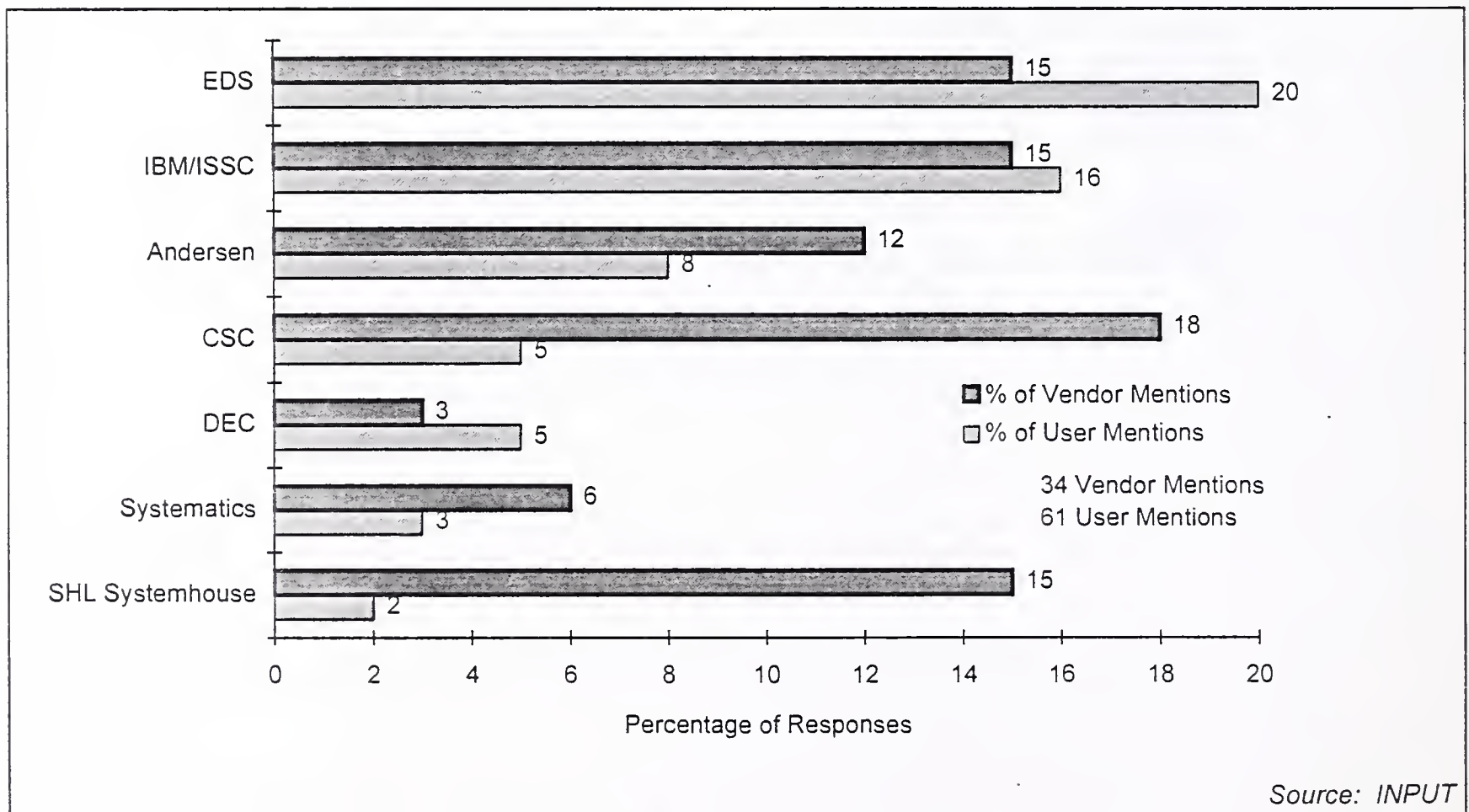
3. What is Reality?

The full services vendors have invested significantly in expanding their service mix to include BPR consulting. The premise for this investment is that the customer wants one vendor to provide a complete suite of services. These vendors believe their customers demand them to take responsibility for the entire process from identifying core processes through the redesign, reengineering,
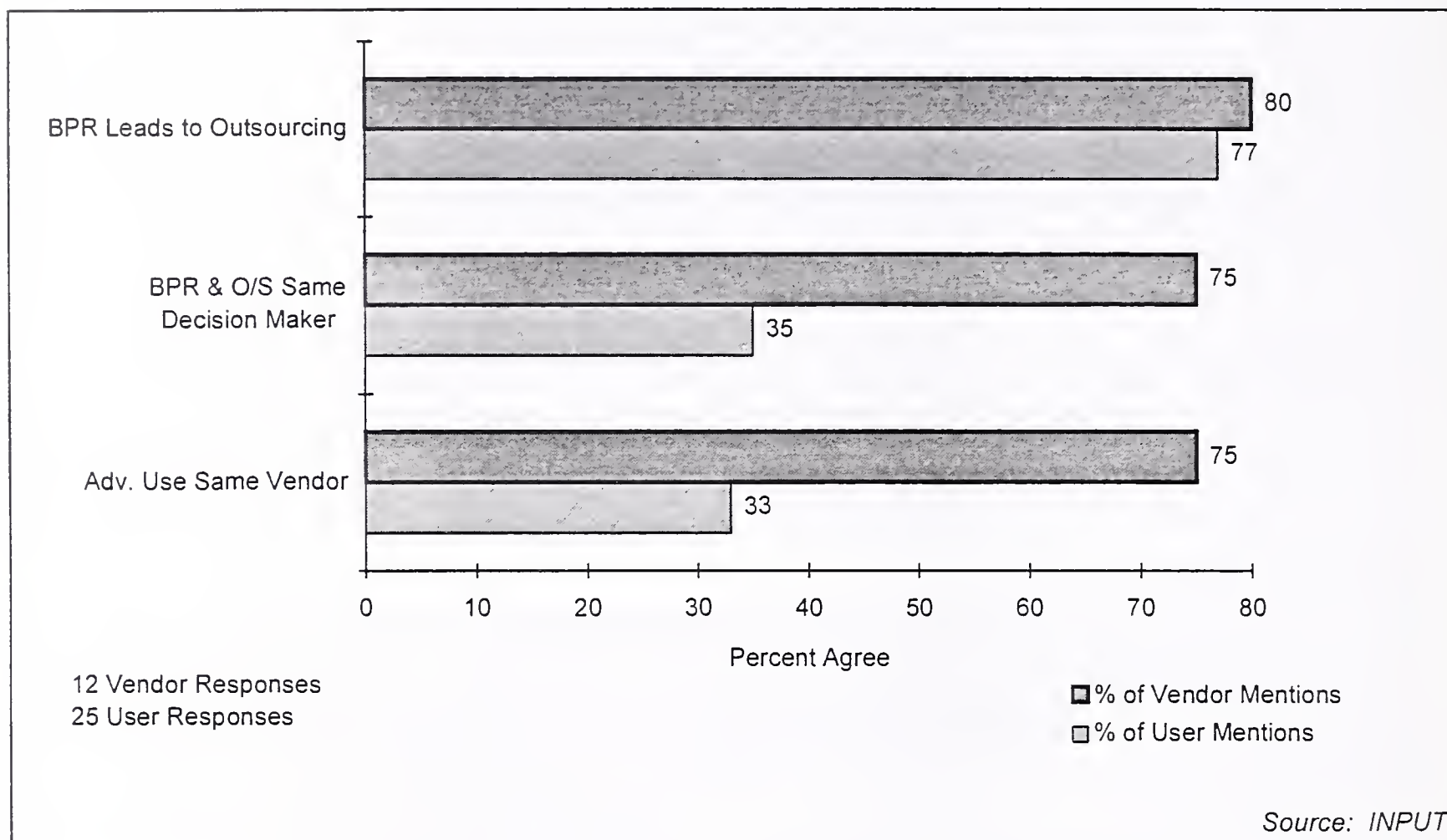
implementation and operation phases. These vendors also believe the purchase decision for BPR and outsourcing are at the same level in the organization, so efficiencies can be garnered in the sales process for each service. The current user experience is different. As shown in Exhibit VI-6, although the user community strongly believes that BPR projects impact the demand for outsourcing services, there is little else on which they agree with the vendors.

- Only one-third of the users believe there is any advantage to using the same vendor for both services. The advantage of service continuity and vendor accountability is more than offset by potential vendor bias toward recommending additional services and, more importantly, not having the advantage of the "best of breed" resource for each service category.

- The purchase decision for both service may ultimately reside with the CEO but the members of the selection team may vary significantly. BPR usually includes a broader swath of the organization: functional executives involved in the process, corporate planning functions, members of the executive committee (e.g. CEO, COO, CFO), and possibly the CIO. Outsourcing decisions are more focused.

  The selection committee is usually managed by the IS organization, with the CFO providing a heavy influencing role. The outsourcing vendor selection process is typically tightly controlled at the senior management level and usually undertaken without significant involvement or influence from user management other than the CEO/COO.

As discussed in the previous section, the relatively early phase of BPR acceptance and the timing of the subsequent outsourcing decision may demonstrate that it is too soon to tell if there is a change in the user acceptance of the one vendor concept. But given the current environment, based on a group of users that are using both services, it is clear that the presumed competitive advantage of providing both services is currently unfounded.

Exhibit VI-6

BPR & Outsourcing: Theory vs. Practice

BPR Leads to Outsourcing — 80 (Vendor), 77 (User)

BPR & O/S Same Decision Maker — 75 (Vendor), 35 (User)

Adv. Use Same Vendor — 75 (Vendor), 33 (User)

Percent Agree

12 Vendor Responses
25 User Responses

□ % of Vendor Mentions
□ % of User Mentions

Source: INPUT

B

User Recommendations

Business Process Reengineering may be new veneer on the old strategic consulting/change management practices. The importance of BPR is not the title but the focus. Focusing on process versus function is beneficial. The identification of core processes versus support processes helps prioritize financial and personal resources. The realization that some processes (or components thereof) do not need to be performed internally, expands the opportunities for moving more rapidly to competitive advantage driven missions (new products, faster and more efficient distribution, better customer service). BPR must be controlled internally and in many cases, conducted internally.

Core process identification is the theoretical first step but as this research demonstrated, most of the current activity is focused on process improvement. The use of vendors for assistance in BPR activities can be helpful, if not necessary. However, the use of one vendor, even for only the BPR process, may not be helpful.

Consultants value is expertise. That expertise tends to be specialized. The "best of breed" alternative, especially where disparate processes are being reengineered is a valid alternative. The management of multiple consultants is not necessarily an onerous task, if they are segregated by function or process.

Once a core process is identified and the reengineering agenda established, the project must be created and managed. In many cases, these redesign/reengineering efforts require major structural changes to the organization and systems. These changes trigger major system changes that must be accomplished quickly. Vendors' roles range from being the reengineer through the system designer, developer and implementor (as well as the change manager for the non-IS aspects of the project).
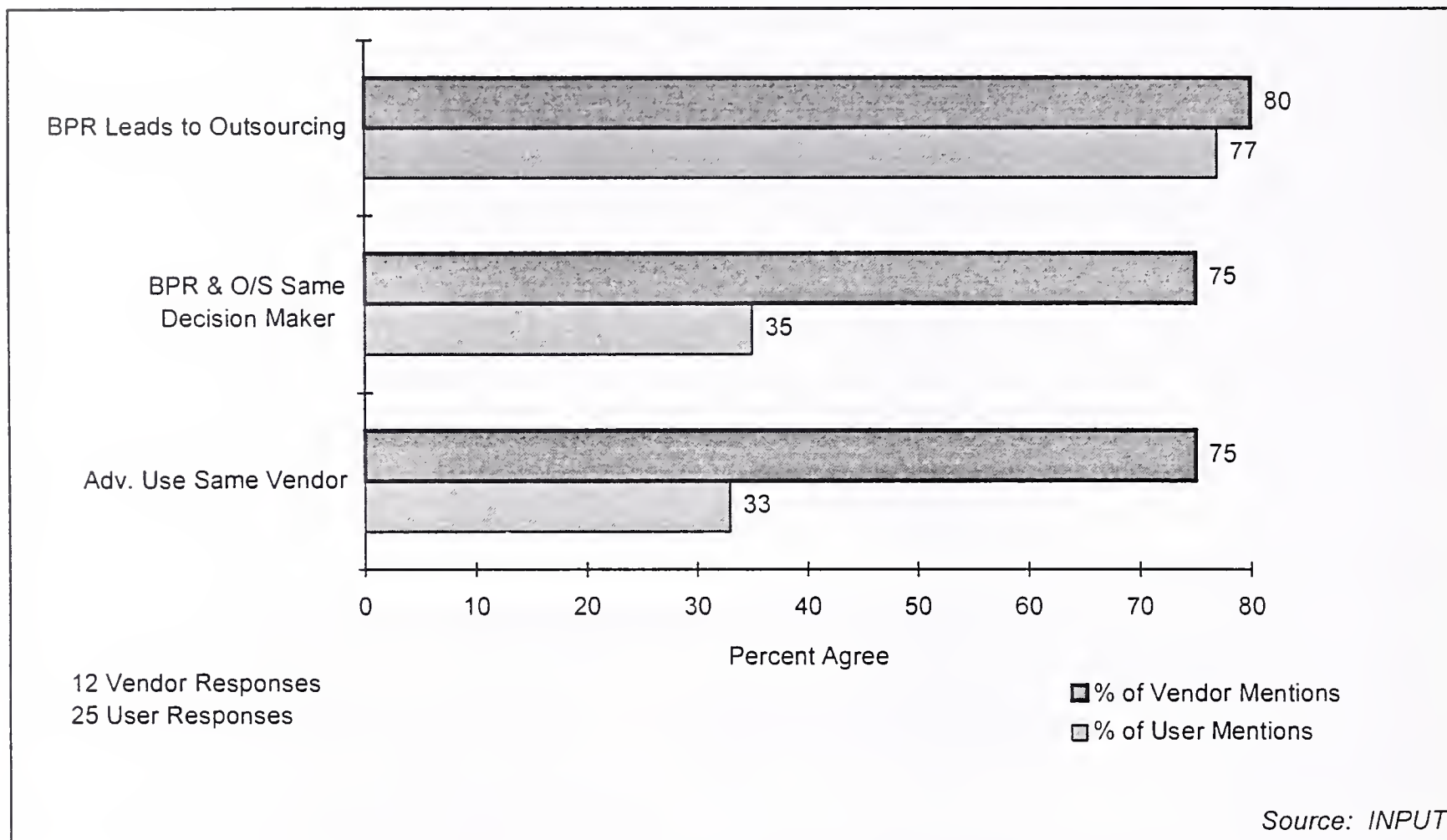
One area that cannot be overlooked is the need to manage the legacy environment during this period of dynamic change. The customer may choose to keep this responsibility or delegate this to an outsourcing vendor. Similarly, the development of the new systems environment may be accomplished as an internal, external, or shared exercise with a vendor.

The full service vendors are positioning themselves to do any or all of these services. The customer must determine which aspects they wish to perform then manage the entire process. The need for different and/or additional skills to develop these new systems usually requires the need to outsource some facet of the development or operations of the legacy environment.

The subsidiary processes identified during BPR are candidates for outsourcing. Currently most of these processes are still performed internally. The migration to delegating an entire business process to a vendor is just beginning and is usually is focused on the information systems segment of the process. The sharing of responsibility for the process is a means for developing trust between the vendor and user organizations. In addition, few vendors are prepared to take responsibility for an entire business process. They specialize in functional areas (e.g. Andersen in accounting and EDS in customer service) but do not have the breadth of experience to cover all processes.

The best of breed solution for process management would include vendors that have strength in the business process but not IS outsourcing (e.g. Wyatt & Co. in benefit administration) as well as

Exhibit VI-6

BPR & Outsourcing: Theory vs. Practice

12 Vendor Responses
25 User Responses

◩ % of Vendor Mentions
◻ % of User Mentions

Source: INPUT

B

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The best of breed solution for process management would include vendors that have strength in the business process but not IS outsourcing (e.g. Wyatt & Co. in benefit administration) as well as

IS outsourcing specialists with little experience in managing business processes (e.g. CSC). The paucity of alliances in this area thrusts the responsibility back into the user camp for process management. INPUT forecasts that Business Operations Outsourcing (a.k.a. process management with at least a 30% IS component) will become a $1.7 billion market by 1998 in the U.S. This is a 28% growth that will be triggered, in part, by two factors:

- The demand for process management services identified by BPR projects

- Vendors establishing alliances to perform process management services. Until these alliances occur, process management will remain primarily the purview of the user.

Vendors continue to talk partnerships. BPR highlights the requirements to expand resource availability beyond the internal organization for aspects of planning, design, development and operation of all facets of business processes, including IS. Many of these capabilities should be delegated to vendors. They have the capability and the efficiencies that may not exist internally. This also allows for reducing operating costs, liberating capital and focusing personnel on higher priority activities.

But is this a partnership? It better not be. A partnership implies equality but the user/vendor relationship should not be equal. The customer must maintain management control. The vendor may be a consultant, advisor, or service supplier but never a peer. A close working relationship between a vendor and the user with shared objectives, risks and rewards are all worthwhile but the user must remember who is in charge. The customer must manage all the relationships: from strategic consulting to outsourcing. Exhibit VI-7 summarizes the user recommendations.

Exhibit VI-7

User Recommendations

- Focus on the process not the function
- Identify core processes
- Control BPR internally
- Delegate based on vendor strength - Multi-vendor environments are OK
- Consider transitional outsourcing during core process reengineering
- Consider outsourcing segments of non-core processes
- Do not partner - Manage the vendor relationships

C
Vendor Recommendations

This study has shown that users are still focusing on continuous business improvement and not on the classical definition of BPR. These users currently do not see the value of using a single vendor for BPR and outsourcing. However, the users in this study are the "early adapters" in the use of outsourcing services that have resulted from BPR studies. As more BPR studies are launched and processes become redesigned versus merely improved, the potential for using a common vendor for BPR and outsourcing may be realized. But for now, outsourcing vendors should align their service mix with their customer's perception.

If the customer's focus remains on continuous process improvement, vendors should provide the services that assist in that area of change. Vendors should also provide: consulting, development, or outsourcing services, depending on the customer's need. In many cases the customer can not articulate their needs nor are they secure in the notion of outsourcing a process, function, or even a segment of their IS operation. Responsiveness to the customer's need is the key. Full service may be a disadvantage if it is presented (or perceived) as the only alternative.

Customers still believe in "best of breed" vendor solutions. This is especially true in the management consulting arena.

Today there is little alliance activity between outsourcing vendors and management consultants. Outsourcing vendors that do not provide management consulting view the management consultants as too far removed from technology to make a valid recommendation on outsourcing. The management consultants view the outsourcing vendors as being too far down the service value chain to be of any interest. The advent of the full service vendor (e.g. Andersen, CSC, EDS, and IBM) eventually may make it a competitive necessity for alliance to occur.

Even though users currently appear to be cool to using one vendor for both services, the full service vendor bids may force a combined bid response from BPR and outsourcing providers to match the scope of the competitive bid. Even if the users keep the separation between service types, they agree that outsourcing activities are dependent on BPR activity. This will require that the BPR vendors be cognizant of the outsourcing capabilities available in the marketplace. At least a closer working relationship between these two vendor categories will be required to support the customers BPR/outsourcing activities.

Vendors should view the outsourcing opportunities presented by BPR from two perspectives: Current customers and prospects.

- Current customers have a working knowledge of the vendor's capabilities. In these cases, the vendor can more easily move up the service value chain to perform either implementation or consulting activities. EDS is using this technique successfully in selling its consulting services. Leveraging the customer relationship may also provide visibility to new BPR projects.

  In addition, vendors who do not provide BPR services may still be included in the BPR team as the provider of implementation or operation services. The value of customer presence can not be over emphasized. The more visible the vendor throughout the organization, the more solid the customer relationship and the business potential for that account.

- Prospects are much more difficult sell. BPR can be an entry point. Vendors have used BPR projects to demonstrate the tangible benefits they can deliver. There is a history of BPR projects being divided into phases with the financial benefit of each phase funding the next.

SHL Systemhouse's transformational outsourcing service uses the same concept, it directs the savings of outsourcing legacy systems into "BPR" and systems development activities. The BPR entry point can also be used by outsourcing vendors that have alliances with management consultants, even though there has been little evidence to date of this occurring.

BPR is the launching point for Business Operations Outsourcing. As discussed in the previous section, BPR will identify processes that should be delegated to external resources. Today, however, few vendors are prepared to deliver this service. One solution is create alliances between business process specialists and IS outsourcing vendors.

The most likely occurrence in the short term will be the user managing multiple service providers to provide a virtual business operations outsourcing service. The winning vendors will be the ones that can demonstrate success in managing and operating subordinate business processes in which IS services will be a crucial component. BPR will also trigger the demand for transitional outsourcing for reengineered processes. Exhibit VI-8 summarizes the recommendations for vendors.

BPR is a trigger for outsourcing demand. Its full impact has yet to be felt. As BPR matures over the next two years, the true impact will begin to be seen in transitional and business operations outsourcing contracts. The peak of this impact on the outsourcing market will not occur until 1998. There is still time to ride this latest wave of outsourcing demand, but its a ride that must be ridden as a team with the customer and specialized service providers.

Exhibit VI-8

VI-16

Vendor Recommendations

- Align service mix with customer perspective
- Do not oversell full service
- Consider alliances
- Position customers and prospects
- Prepare for the impact of BPR

A
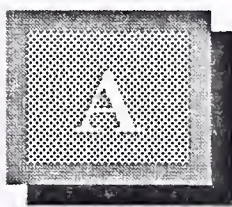
Companies Interviewed

The following is a list of companies. The list excludes companies that wished to remain anonymous.


User Companies

Agway

American President Lines

American Tobacco

Bell Atlantic

Bell South

Bethlehem Steel

Beverly Enterprises

California State Auto Assoc

Carlson Co

Cergrow

Chase Credit

CIGNA

Citibank

Consolidated Edison

Continental Bank

Delco - GM

Dept. of Human Services Merced County

Eastman Chemical

Eastman Kodak

Elf

First Michigan

Fleet Financial

Freeport McMoran

GE

General Mills

Hallmark Cards

International Paper

Jackson National

Local Federal

LTT Hartford

Maritz/MIR

McDonnell Douglas

Moore Business Forms

NASA

PG&E

Polaroid

Progressive Insurance

Southland Corp

Sun Corporation

Texas Instruments

U.S. Department of Defense

UCAR

Union National Bank

United Illuminating

WABCO

Wheely-Pitt

Xerox

Vendor Companies

Andersen Consulting

Digital Equipment

EDS

First Data Corporation

FIserv

Hewlett Packard

IBM

Price Waterhouse

SHL Systemhouse

Systematics

Unisys
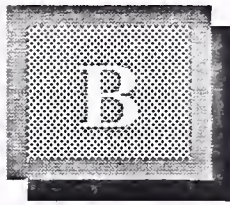
User Questionnaire

Outsourcing Information Systems Program

INPUT is conducting a study on the impact of Business Process Reengineering on Outsourcing. The information you provide will be confidential and neither your name nor your company's name will be connected with any information in the study. In return for your assistance, we will provide you a summary of our findings at no charge.

1. Business Process Reengineering (BPR) is a name frequently used but companies have different definitions of what it is. How do you define BPR?

2. How has your company used BPR?

3. Did any of your BPR projects lead to Outsourcing contracts or did any of your Outsourcing contracts lead to BPR projects? Was this expected?.

4. *Skip this question if there was no Outsourcing contract resulting from BPR engagement.*
   Was there a difference in the scope, contract, pricing and purchase decision process between Outsourcing contracts generated from BPR studies versus other Outsourcing engagements you have experienced?

5. *Skip this question if there was no Outsourcing contract resulting from BPR engagement.*
   Do you believe your Outsourcing contract's terms and conditions were effected by the BPR study?   If so, how?

6. *Skip this question if there was no BPR contracts resulting from Outsourcing engagements.*
   Did you find a difference between the type of BPR contract coming from Outsourcing activities and other BPR engagements?

7. Do you expect to use the same vendor for BPR and Outsourcing?

8. What are the advantages/disadvantages to using the same vendor for BPR and Outsourcing?

9. Do you see traditional BPR vendors forming alliances with Outsourcing vendors? Do you perceive these alliances as providing a benefit to your company?

10. Are the same people responsible for selecting BPR and Outsourcing vendors?

11. Did you select a BPR vendor with the expectation of using them to deliver Outsourcing services?
    Did you select an Outsourcing vendor with the expectation of using them to deliver BPR services?

12. Did a BPR project cause your firm to decide to outsource?

13. What was the timing between the start of your BPR project and the decision to outsource?

14. What do you estimate the ratio between your company's expenditure to external providers for BPR vs. Outsourcing? How will this change in the next three years? Why?

15. Is the interest in BPR affecting your interest in Outsourcing services? Why?

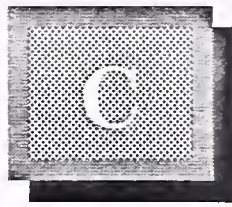16. Who do you perceive as the top five BPR Vendors?

    1.

    2.

    3.

    4.

    5.

17. Who do you perceive as the top five Outsourcing Vendors?

    1.

    2.

    3.

    4.

    5.

18. Do you have any other comments regarding the relationship between BPR and Outsourcing?

19. Do you have an example of a BPR project that was directly related to an Outsourcing contract that we can briefly describe in the report?

Vendor Questionnaire

Outsourcing Information Systems Program

INPUT is conducting a study on the impact of Business Process Reengineering on Outsourcing. The information you provide will be confidential and neither your name nor your company's name will be connected with any information in the study. In return for your assistance, we will provide you a summary of our findings at no charge.

1. Business Process Reengineering (BPR) is a name frequently used but companies have different definitions of what it is. How do you define BPR?

2. Which segments of BPR and outsourcing services does your firm provide?

3. Does your firm have any alliances with
   BPR providers?
   Outsourcing firms?
   Who are these firms and please describe these relationships?

4. Do you believe it is a competitive advantage for one firm to provide BPR and Outsourcing services? Why?

C-2

5. Have any BPR projects led directly to Outsourcing contracts or have any Outsourcing contracts led to BPR engagements? If so, why did this occur?

6. How many of these BPR studies were performed by:
   Your firm?
   Alliance partners?
   Firms with no formal relationship with yours?

7. *Skip this question if there was no Outsourcing contracts resulting from BPR engagements.*
   Was there a difference in the scope, contract, pricing and client relations between Outsourcing contracts generated from BPR studies versus your typical Outsourcing engagement?

8. *Skip this question if there was no BPR contracts resulting from Outsourcing engagements.*
   Did you find a difference between the type of BPR contract coming from Outsourcing activities and the usual BPR engagements?

9. Which organization and position within that organization made the purchase decision for:
    Outsourcing?
    BPR?
    Were the purchase decision makers different than from your typical BPR and Outsourcing contracts?

10. What role does the BPR vendor play in their client's decision to outsource?

11. What percentage of your Outsourcing clients are using outside firms (not just yours) for BPR studies?
    What percent of your BPR clients are using outside firms (not just yours) for Outsourcing services?

12. What do you estimate the ratio between your clients' expenditure to external providers for BPR vs. Outsourcing? How will this change in the next three years?

13. How is user interest in BPR affecting your service business?

14. Who are your top five BPR Competitors?
    1.
    2.
    3.
    4.
    5.

15. Who are your top five Outsourcing Competitors?
    1.
    2.
    3.
    4.
    5.

16. As part of this research we would like to speak with users who have used BPR and Outsourcing services. Would you supply us with the information on five clients who have used your services.
    1.
    2.
    3.
    4.
    5.

17. Do you have any other comments regarding the relationship between BPR and Outsourcing?